# THE INTERNATIONAL NICKEL COMPANY OF CANADA, LIMITED

# 1974 ANNUAL REPORT

**Annual Meeting**

The Company's Annual Meeting will be held in Toronto on April 16, 1975.

---

La traduction en français du texte de ce rapport sera fournie sur demande.

## The International Nickel Company of Canada, Limited

**Contents**

| **Results in Brief** (in thousands except where noted by asterisk) | **1974** | 1973 |
|---|---|---|
| Net Sales | **$1,684,608** | $1,172,814 |
| Net Earnings | **$ 306,002** | $ 226,859 |
| Per Share * | **$4.11** | $3.04 |
| Dividends Paid | **$ 119,267** | $ 89,443 |
| Per Share * | **$1.60** | $1.20 |
| Income and Mining Taxes | **$ 248,431** | $ 119,420 |
| Capital Expenditures | **$ 149,242** | $ 88,814 |
| Ore Mined (short tons) | **22,000** | 19,700 |
| Nickel Deliveries (pounds) | **549,070** | 517,030 |
| Copper Deliveries (pounds) | **367,190** | 327,120 |
| Platinum-Group Metals & Gold Deliveries (troy ounces) | **317** | 413 |
| Employees* – Metals Business | **32,459** | 31,311 |
| – ESB Incorporated | **16,503** | |
| Shareholders * | **86,795** | 90,660 |

Dollar figures in this Report are expressed in United States currency, unless otherwise stated.

L. Edward Grubb

J. Edwin Carter

## Message to Shareholders

The year covered by this Report was marked by a record level of sales and earnings, by your Company's first diversification into a completely new line of business and by continued expansion in Canada and abroad. It was also marked by severe inflation, by the launching of onerous new provincial and federal tax regimes for the Canadian mining industry and by an economic downturn in most parts of the world.

The historically high levels of sales and earnings in 1974 were the result of a strong demand for our products, met by record production as well as a substantial drawdown of inventories, and a generally improved level of prices. Benefits accruing from continuing process improvement and cost-control programs, while significant, were more than offset by the effects of inflation.

We need hardly remind shareholders, however, that current sales and earnings figures looked at alone do not tell the full story. To speak of record performances and make traditional comparisons with previous years can be misleading. The fact is that your Company, in common with virtually every corporation in the Western world, has been affected by a dismayingly high level of inflation. This not only results in a substantially lower real-dollar return on assets and shareholders' equity than would otherwise be the case, but also necessitates the retention of a large proportion of earnings for capital requirements.

During the summer, the Company acquired ESB Incorporated, one of the world's leading battery companies, with a sound growth record and a reputation for good management. A description of this new affiliate's principal activities is to be found on pages 19 to 21.

We intend to continue to seek planned and orderly diversification, both through internal developments and the acquisition of other enterprises, as opportunities present themselves. Our criteria in making acquisitions are a good earnings potential, the capacity to offset cyclical swings in earnings in the primary metals industry and a broad compatibility with our own skills and assets.

Nickel production at our Canadian facilities increased by 41 million pounds last year and will be increased again this year. Construction is well under way in Indonesia and Guatemala on facilities which will ultimately increase the Company's capacity by an additional 130 million pounds. For the longer term, we also have programs in various stages of development involving nickel, copper and other resources (including oil and deepsea nodules) in a number of other areas.

The taxation changes announced last year by the provincial and federal governments carry implications which are inimical to the continuing vitality of the mining industry and to its historically important role in the Canadian economy. The governments concerned have made modifications in some instances, but much remains to be done and we are continuing to make representations to the appropriate public authorities. No one seriously argues that traditional tax arrangements are immutable or that mining should not pay its just share of public costs. On the other hand, it is clear that since major natural resource companies are being taxed at significantly higher levels than manufacturing companies in Canada, the pendulum has swung too far. We believe that, in time, the necessity of further changes will be recognized.

Looking forward, the effect of the recession on our business is difficult to assess. The heavy demand for our products in the past year was to a significant extent attributable to the strength in the capital goods market. Fortunately, this market has still not shown the weakness reflected worldwide in the demand for consumer goods.

We are confident that the Company's large and diverse reserves of human, material and financial strength equip it well to meet the challenges that lie ahead.

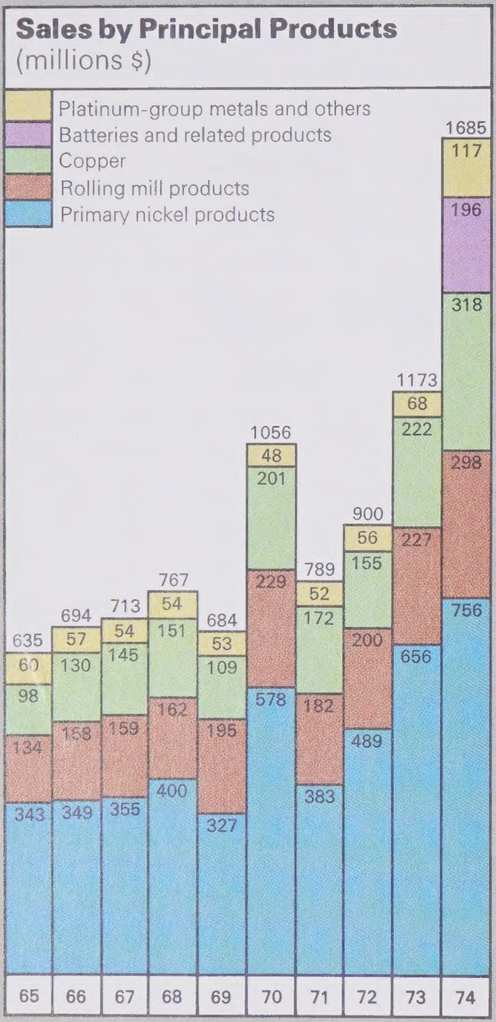
Edward Grubb

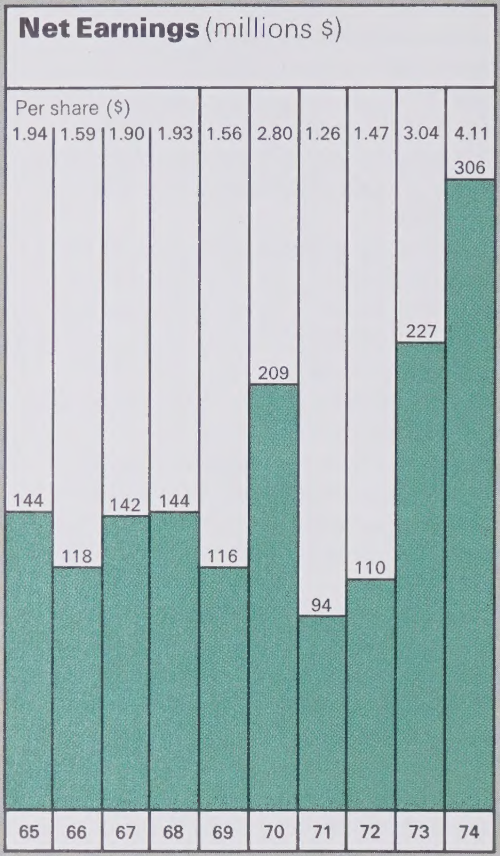
Chairman and Chief Officer

J. Edwin Carter

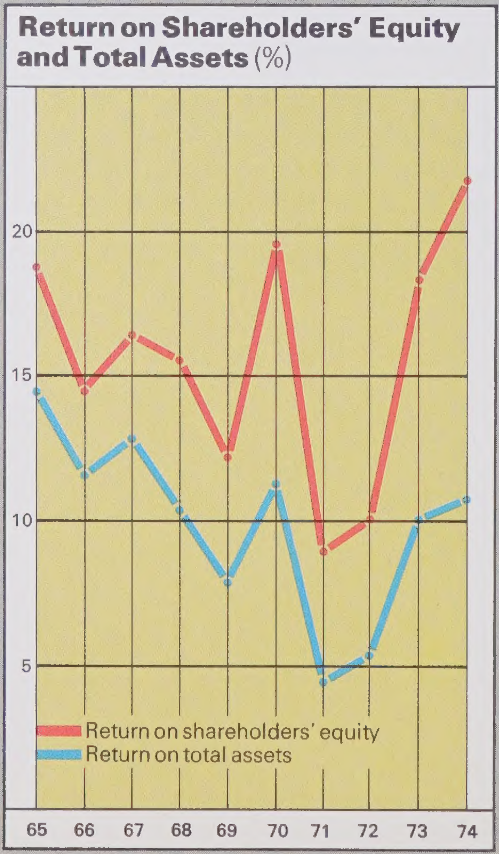
President

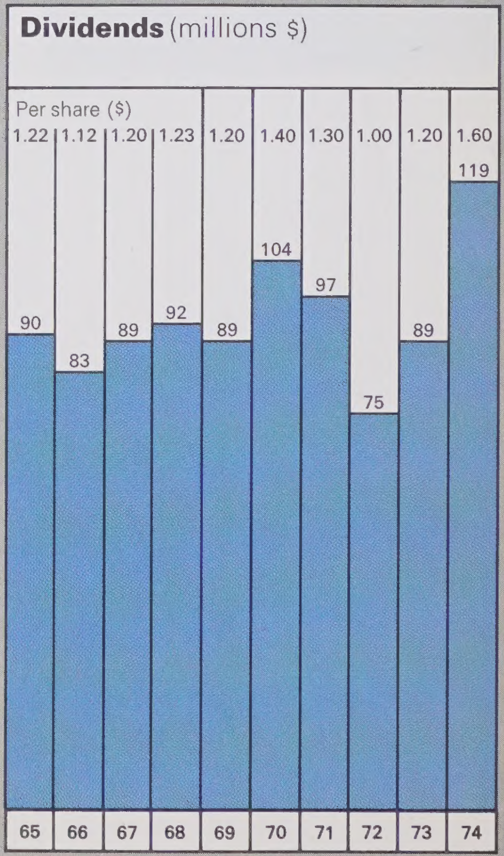
February 13, 1975


Sales by Principal Products (millions $)
Platinum-group metals and others
Batteries and related products
Copper
Rolling mill products
Primary nickel products
635 60 98 134 343
694 57 130 158 349
713 54 145 159 355
767 54 151 162 400
684 53 109 195 327
1056 48 201 229 578
789 52 172 182 383
900 56 155 200 489
1173 68 222 227 656
1685 117 196 318 298 756
65 66 67 68 69 70 71 72 73 74


Net Earnings (millions $)
Per share ($)
1.94 1.59 1.90 1.93 1.56 2.80 1.26 1.47 3.04 4.11
144 118 142 144 116 209 94 110 227 306
65 66 67 68 69 70 71 72 73 74


Capital Expenditures (millions $)
63 73 146 175 175 273 244 125 89 149
65 66 67 68 69 70 71 72 73 74


Return on Shareholders' Equity and Total Assets (%)
20
15
10
5
Return on shareholders' equity
Return on total assets
65 66 67 68 69 70 71 72 73 74


Dividends (millions $)
Per share ($)
1.22 1.12 1.20 1.23 1.20 1.40 1.30 1.00 1.20 1.60
90 83 89 92 89 104 97 75 89 119
65 66 67 68 69 70 71 72 73 74

## Financial Review

The International Nickel Company of Canada, Limited and subsidiaries
Sudbury, Ontario
February 13, 1975

Net earnings in 1974 climbed to $306.0 million, or $4.11 a share, surpassing the record of $226.9 million, or $3.04 a share, set in 1973. Increased deliveries and improved prices for nickel, copper and rolling mill products were the prime contributors to the better performance, more than offsetting the adverse effects of higher unit costs and substantially higher effective income and mining tax rates.

Inaugurating a program to reduce dependence on its traditional business by diversifying into other fields, the Company made a significant entry into the packaged power industry with the acquisition of ESB Incorporated, effective as of August 1, for $234 million. The contribution to 1974 earnings from ESB's operations was not significant; this contribution consisted of earnings from ESB's operations for the five months since its acquisition, adjusted for the effect of purchase accounting procedures applicable to the acquisition.

Sales for the year were $1,685 million. Metals sales rose to $1,451 million, compared with $1,173 million in 1973, as deliveries set new highs. Primary nickel products accounted for sales of $756 million, an increase of $100 million from 1973, as the result of improved prices and increased deliveries. Copper sales were $318 million, rising from $222 million a year ago. Sales of rolling mill products amounted to $298 million, an increase of $71 million over last year. Since its acquisition, ESB has contributed $234 million to consolidated net sales.

Costs for the year of $888 million exceeded 1973 costs by $244 million. The inclusion of ESB's results from August 1, 1974 accounted for $187 million of this increase, while the remainder was attributable principally to increased deliveries and higher unit costs in the metals business. Rapidly increasing supply, energy and labor costs more than offset continued improvements in operating efficiency. Costs in 1974 reflect a modest benefit from copper hedging activities, a program begun in late 1973 in order to stabilize price realizations on that portion of the Company's copper sold in Europe at prices based on London Metal Exchange quotations.

Selling, general and administrative expenses for 1974 of $101 million includes $31 million attributable to the inclusion of ESB's results for the last five months of the year.

Income and mining tax expense in 1974 reached $248 million, more than double the amount incurred in 1973. While somewhat more than half of this increase related to higher earnings, the balance was primarily attributable to the introduction of higher rates for Ontario mining and Manitoba royalty taxes and the termination of tax exemption on income from new mines. The effective corporate income and mining tax rate increased from 34.5 per cent in 1973 to 44.8 per cent in 1974. The Company's earnings for the first nine months of the year, announced October 17, 1974, did not reflect the changes in Canadian federal income taxes proposed May 6, 1974, which were not enacted prior to the dissolution of Parliament. The earnings for the fourth quarter and year 1974 did reflect the federal changes with effect from May 7, following the government's reintroduction of the May 6 changes, with some modifications affecting the mining industry, in the November 18 budget. The recognition of the federal budget changes resulted in a benefit for 1974, which was not substantial relative to the Company's total income and mining taxes. The benefit will be of short duration, however, and, during 1976, these federal tax changes will result in additional taxes to the Company. The Company's overall tax rate is influenced to a major degree by applicable Canadian taxes. The effective income and mining tax rate on Canadian income could approximate 50 per cent in 1976, when the Canadian tax changes are expected to be fully effective.

Cash and marketable securities at year-end amounted to $261 million, an increase of $67 million over 1973, despite the outlay for the acquisition of ESB. The higher average level of marketable securities held during the year was chiefly responsible for the near-doubling of Other Income.

Capital expenditures in 1974 totalled $149 million, as the Company continued its modernization of production facilities and moved ahead with the development of lateritic ore projects in Indonesia and Guatemala. In 1975, capital expenditures are expected to approximate $400 million, more than half of which is designated for the lateritic projects. Long-term loans arranged by the Company's majority-owned Indonesian and Guatemalan subsidiaries will finance major portions of the latter expenditures.

During 1974, total debt, inclusive of short-term borrowings, increased by $149 million. The inclusion of ESB's debt in the consolidated balance sheet accounted for

$134 million of this increase, and $40 million was drawn down in connection with the Indonesian project. Other corporate debt was reduced by $25 million.

The Company's rate of return on total assets improved from 10.1 per cent in 1973 to 10.9 per cent in 1974, while the return on shareholders' equity rose from 18.5 per cent in 1973 to 21.7 per cent in 1974. These are increases, however, which do not reflect the erosive effects of inflation on the Company's profitability. Since total assets and shareholders' equity are expressed in terms of historic costs, earnings are inflated and the value of investments in total assets and shareholders' equity are understated. This is particularly true of a company such as Inco whose major business is the highly capital-intensive mining industry.

As long as high rates of inflation prevail and governments neglect to recognize this problem in their tax structures, investment requirements must be financed to a greater extent from internally generated funds. In 1974, as in 1973, the Company reinvested a greater proportion of its earnings in the business than it had in recent years. Nevertheless, the dividends paid in 1974, amounting to $119.3 million, or $1.60 a share, represented a 33 per cent increase over 1973 dividends of $89.4 million, or $1.20 a share.

On September 9, 1974, following shareholder approval at a special meeting in August, the share capital of the Company was altered in order to permit the payment of "tax-deferred" dividends. The share capital alteration resulted in the reclassification of the common shares of Inco as Class A Common Shares and the authorization of an equal number of Class B Common Shares. The two classes are interconvertible at any time on a share-for-share basis. Tax-deferred dividends may be declared by the Board of Directors on the Company's Class B Common Shares out of "1971 capital surplus on hand" as provided in the Income Tax Act of Canada. The tax consequences for shareholders holding Class A or Class B shares vary depending upon their place of residence and the applicable tax law. The Board declared the dividends payable in December 1974 and March 1975 on Class B Common Shares out of "1971 capital surplus on hand."

# Metals Marketing

## Deliveries and Prices

The Company's metal deliveries in 1974, compared with 1973, were as follows:

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| Nickel (lbs.) | 549,070 | 517,030 |
| Copper (lbs.) | 367,190 | 327,120 |
| Platinum-group metals† and gold (troy ozs.) | 317 | 413 |
| Silver (troy ozs.) | 1,910 | 2,170 |
| Cobalt (lbs.) | 1,110 | 1,870 |
| Iron ore (long tons) | 583 | 625 |

†Platinum, palladium, rhodium, ruthenium, iridium and osmium

Net sales of all metal products in 1974, compared with 1973, were as follows:

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| Primary nickel | $ 756,369 | $ 655,783 |
| Refined copper | 317,957 | 221,520 |
| Rolling mill products | 297,784 | 227,127 |
| Precious metals | 58,414 | 50,268 |
| Other | 20,108 | 18,116 |
| | $1,450,632 | $1,172,814 |

Inco's 1974 sales of all metal products by geographic area, compared with 1973, were as follows:

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| United States | $ 545,534 | $ 482,840 |
| Europe | 475,645 | 355,966 |
| Canada | 238,641 | 165,279 |
| Asia | 159,110 | 128,034 |
| Others | 31,702 | 40,695 |
| | $1,450,632 | $1,172,814 |

*Nickel*

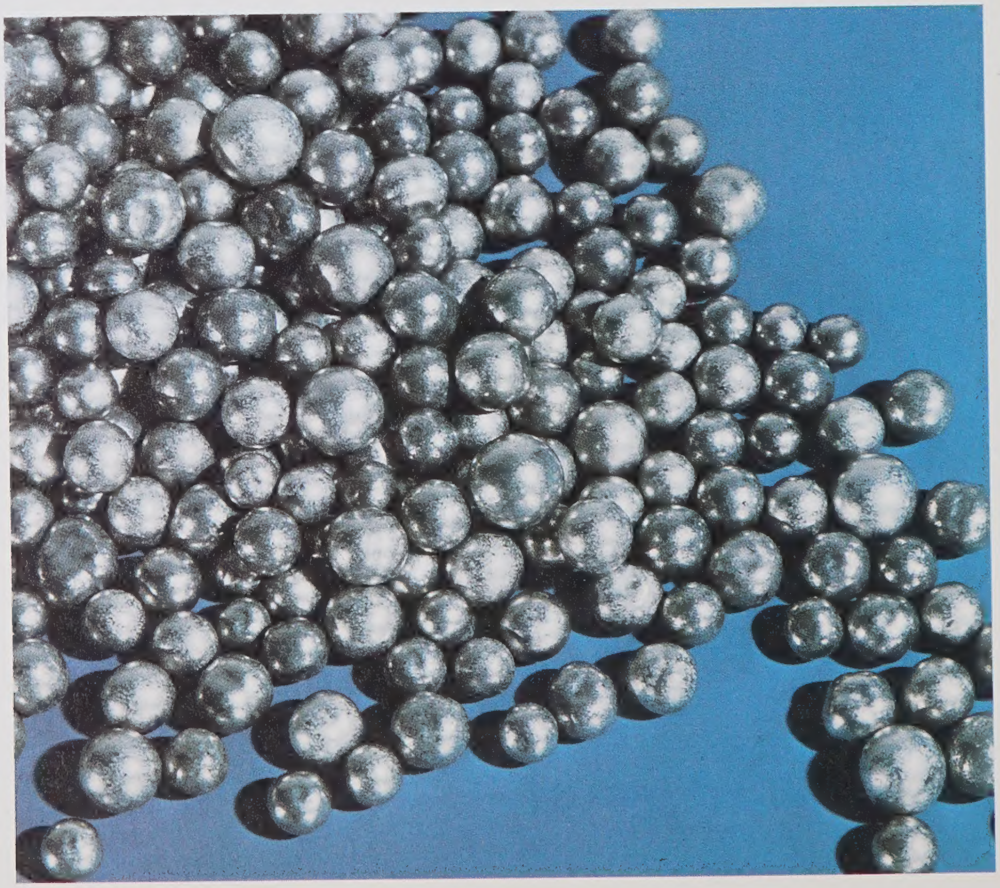
Nickel deliveries by Inco in 1974 exceeded the prior peak established in 1970 by 6 per cent. The Company's sales were strong in all major nickel-consuming countries, reflecting the high demand for nickel, which began in 1973 and continued throughout 1974, despite the economic downturn in some sectors. Sales to date in 1975, however, reflect an easing of nickel demand.

Inco responded to the heavy demand from its customers both by expanding nickel production and by substantially reducing inventory.

During the year, the prices of the Company's primary nickel products were increased. At year-end, the price of Inco's electrolytic nickel and refined nickel pellets was $2.01 a pound, and the price of nickel oxide sinter 75 was $1.88 a pound nickel content. The improved prices for the Company's nickel oxide sinter had little effect on the increase in earnings in 1974, since most of the deliveries took place under contracts signed in late 1973 at the lower price then in effect.

Nickel pellet sales were strong in North America in 1974, the first full year of operation of Inco's Copper Cliff nickel refinery. Many customers installed bulk-handling equipment for pellets, such as this new storage facility at the Huntington Alloy Products Division's Burnaugh plant.


Canadian Pacific



The year 1974 marked the 50th anniversary of Inco product research in the United States, as well as the 10th anniversary of the Paul D. Merica Research Laboratory.

In Europe, S pellets, produced at Inco's refinery in Clydach, Wales, gained in popularity in 1974 as a plating material.

Following wide acceptance in the steel and foundry industries of Incomet* nickel, an improved product with greater utility, production of nickel oxide sinter 90 was discontinued at the end of 1974. At year-end, Incomet nickel was priced at $1.95 a pound nickel content.

*Copper*

Deliveries of ORC* brand copper in 1974 surpassed the previous high, set in 1970, by 5 per cent. Worldwide demand for copper increased during the first half of the year, and declined markedly in the second half, but Inco's deliveries were sustained at a high level throughout 1974.

The Company realized an average price of 88 cents a pound for its copper in 1974, compared with 69 cents the previous year. About half of Inco's copper was sold in Canada at prices that ranged from a high of 82.5 cents (Can.) to 73 cents at year-end. The Company's price has subsequently been decreased to 63.375 cents a pound. Most of the balance of the Company's copper was sold in Europe at prices based on London Metal Exchange quotations, which ranged from the equivalent of 91 cents a pound at the beginning of the year to a record $1.52 on April 1, and fell to the year's low of 56 cents on December 24. On February 13, 1975, the LME quotation was the equivalent of 56 cents a pound.

*Rolling Mill Products*

The higher level of sales of Inco's rolling mill products ($298 million, compared with $227 million in 1973) reflected the continuing strong demand for high-nickel alloys, especially in the chemical, petrochemical and energy fields, as well as improved prices. Sales of products from the Company's two rolling mill operations, the Huntington Alloy Products Division in the United States and Henry Wiggin & Company Limited in the United Kingdom, accounted for some 20 per cent of Inco's total metal sales. While Huntington Alloys and Wiggin both established all-time sales records, Wiggin was adversely affected until the latter part of the year by a labor shortage.

In October, Daido Special Alloys Ltd., jointly owned by Daido Steel Co., Ltd. and Inco, commenced the marketing phase of its specialty and high-nickel alloys venture in Japan.

## Nickel Marketing

The marketing and product research groups were reorganized in 1974 to make them more responsive to customers' needs and to focus more sharply on the development, promotion and sale of the Company's products.

To increase sales and provide better service to customers in the expanding South American nickel market, the Company established a new Brazilian subsidiary, International Nickel do Brasil Comercial Ltda., which began marketing operations early in 1975.

During the year, Inco entered into contractual arrangements for the delivery of a substantial portion of its nickel output from 1975 through 1977. The contracts cover both Class I (e.g., electrolytic nickel and pellets) and Class II (e.g., nickel oxide sinter and Incomet) forms of nickel and are for fixed quantities at the prices in effect for Inco nickel at the time of delivery. These commitments will improve forward planning by both Inco and its customers.

Refined nickel pellets from the Company's new Copper Cliff nickel refinery gained increasingly wide acceptance in North America in 1974. Pellets are now the preferred form of Class I nickel for superalloys and high-nickel alloys generally. Demand for Inco's S* nickel pellets, a plating product produced at the Clydach, Wales, refinery and introduced in 1973, showed a healthy growth in Europe in 1974. Sales of Inco nickel powders increased by more than 35 per cent during the year.

The growing acceptance of Incomet nickel for "finishing" in the stainless steel industry and for use by foundries as a "charge" material helped maintain Class II nickel sales at a high level. In addition, the market for Inco's nickel oxide sinter 75 was considerably strengthened as a result of joint work with customers, which demonstrated this product's economic and metallurgical advantages in the production of stainless steel.

Markets for high-performance, corrosion-resistant alloys developed by Inco include nuclear power stations, petrochemical plants, coal gasification facilities and aerospace applications.

*Inco trademark

Symbolic of Inco's modern mining technology, this giant raise borer can ream out a 7-foot opening, 200 feet long, in a week, a job that previously took several months. Raises are openings driven from level to level throughout a mine to service stopes and provide ore chutes and manways.

# Metals Production

In 1974, Inco produced a record 510 million pounds of nickel, compared with 469 million pounds in 1973. The new program to expand Canadian nickel output, begun in 1973, is continuing into 1975, when annual production is expected to exceed 520 million pounds. This falls within the optimum practicable capacity range for the Company's Canadian facilities, while at the same time ensuring the prudent long-term utilization of ore reserves.

## Mines and Surface Facilities

The Company mined a total of 22.0 million short tons of ore, with an average grade of 1.39 per cent nickel and .97 per cent copper. This compares with 19.7 million tons in 1973, having an average grade of 1.41 per cent nickel and .98 per cent copper.

Operating efficiencies were improved at all underground locations during the year. In January 1974, production from the Crean Hill mine was resumed on a regular basis. Scheduled operations were completed at the Clarabelle open-pit mine in Sudbury in December 1974. Mining at this site will be resumed upon development of an extension.

Inco currently has 16 mines in operation, 13 in Ontario and three in Manitoba. Two mines in Ontario and one in Manitoba are being maintained on a standby basis.

As the result of the billion-dollar capital program carried out in Canada from 1967 through 1972 to modernize and expand the Company's facilities and of continuing capital expenditures of a very high order, the concentrators, smelters, refineries and iron ore recovery plant operated at a new peak of efficiency throughout the year. While the Copper Cliff nickel refinery produced refined nickel pellets and powders that exceeded quality specifications in its first full year of operation, it did not achieve full capacity due to feed preparation problems. To overcome them, work has begun to increase the capacity of the top-blown rotary converter plant to match the 125 million-pound design capacity of the pressure carbonyl plant.

## Rolling Mills

At the Huntington Alloy Products Division, a new tube reducer is being installed and a new vacuum arc remelt furnace is expected to be put into operation this year in anticipation of market demand. Cost savings were achieved by the installation of bulk-handling facilities for nickel pellets in 1974.

At the Wiggin facility in Hereford, England, work is nearing completion on the commissioning of a major powder atomization and compaction plant, which will produce pre-alloyed powder and compacted forms of superalloys for high-integrity gas turbine engine components. Equipment is being commissioned to improve recovery of metallic matter from waste products generated in the plant.

## Environmental Control

Inco's air quality monitoring program in the Sudbury area continued to indicate that the operation of the 1,250-foot smelter chimney, together with technological improvements in the Sudbury operations, has significantly improved air quality in the region. The Economic Council of Canada reported in November 1974 that the pollution index in Sudbury has been reduced by more than 50 per cent in the last three years, giving the community the cleanest air of the 11 major Canadian cities surveyed.

To assist in preventing ecological damage during periods of adverse weather, the Company has installed meteorological surveillance facilities in Sudbury, including a direct link with the federal government's Atmospheric Environment Service.

Measures to further improve dust and fume control were implemented at various plant facilities throughout the Company.

Construction began in mid-1974 on two waste water treatment plants to treat all effluents from the Company's facilities in the immediate Sudbury vicinity. They will go into operation in 1975.

As part of continuing reclamation and landscaping programs, some 40,000 trees were planted in 1974 at Sudbury and


INCO

Molten copper pours into cake and large billet moulds under console control at the Copper Cliff copper refinery. Semi-continuous casting equipment, installed in late 1973, reached full capacity during 1974.

With the deepening of the Manitoba Division's Pipe open-pit mine, additional 65-ton haulage trucks were put to work moving increased daily tonnages from the pit to the surface crusher.

Shebandowan. In addition, work went forward on establishing vegetation on tailings at Sudbury. In the Manitoba Division, landscaping was extended to areas adjacent to the main plant complex at Thompson.

**Energy**

Although energy costs continued to rise, the shortages which affected many industries during the year did not have a significant impact on the Company's output. In contrast with some other producers who depend exclusively on oil, Inco is fortunate in having access to a variety of sources of energy. This is particularly true at its Canadian facilities, which are heavy consumers of hydroelectric power (both from public utilities and the Company's own power plants) and, to a lesser extent, consumers of oil and natural gas.

Strict conservation programs, as well as cost-availability studies of long-term requirements and alternatives, were undertaken during the year with a view to retaining this flexibility. In Canada, savings and efficiencies were achieved following a detailed review of the Ontario Division's electric power generation and consumption practices. In the United Kingdom, government-mandated restrictions on the use of electricity during the first three months of 1974 had little effect on production at the Clydach and Acton refineries and the Wiggin rolling mill. At the Huntington and Burnaugh plants in the United States, ample electric power was available in 1974, and no shortage is expected in 1975. Stringent natural gas conservation measures have been implemented at these facilities, and the Company is investigating alternative sources of energy supply.

## Corporate Research

During the past year, the Company, excluding ESB, spent some $28 million on process and product research in its laboratories and research stations in Canada, the United States and the United Kingdom. This compares with some $24 million in 1973.

Investigations were directed to the determination of the most economic methods for treating potentially commercial nickel ores available to Inco in various parts of the world. For the more advanced projects, selected processes were evaluated on a pilot-plant scale in the Port Colborne, Ontario, research stations.

Inco's research organization continued to assess potentially advantageous process modifications and possible new primary products. Particular attention was paid to techniques requiring less energy. A major effort was expended on processes for the reduction of sulphur dioxide emissions and for generally minimizing the effect on the environment of processing.

In reorganizing its product research programs, Inco continued its efforts to develop new materials containing the Company's products. The following laboratory developments during the year showed promise in commercial applications:

- A highly corrosion-resistant, anti-fouling copper-nickel-chromium alloy for use in marine condensers and power generating equipment, and possibly as cladding for ship hulls.
- A high-strength, low-expansion alloy for casting.
- An improved corrosion-resistant nickel-base alloy for cast blades and vanes in industrial gas turbines.
- Powder metallurgy high-temperature superalloys, produced by Inco's mechanical alloying and atomization processes, for gas turbines.
- Nickel flake for incorporation in high-reflectivity paints.
- A nickel-containing catalyst for automotive exhaust emissions.

Basic research to make available the necessary technology for future innovative developments continues side by side with applied research to provide the foundation for possible new corporate ventures.


P&H


P.T. INTERNATIONAL NICKEL INDONESIA
C/o DRAVO PACIFIC INC
PT INCO
CO DRAVO PACIFIC
MALILI SULAWESI FOR EXPORT
KILOS
KILOS

A section of a Canadian-made dryer kiln shell for the Company's Indonesian nickel project frames part of the Toronto skyline as an Inco-chartered vessel takes on material and equipment bound for the construction site on the island of Sulawesi. Photos inset at the top show, left to right: construction of the building to house the plant's electric melting furnace; an exploration crew test-drilling for ore; stripping of the orebody in preparation for surface mining.

## New Projects, Exploration, Ore Reserves

### Indonesia

Site preparation is almost complete, and construction of surface facilities is well under way at the lateritic mining and processing project of P. T. International Nickel Indonesia, a majority-owned subsidiary, at Soroako on the island of Sulawesi. Approximately 1,800 contractors' employees were at work on the project at year-end, and in 1975 the work force will reach 2,500.

The first stage of the project, which will have an annual production rate of some 35 million pounds of nickel in the form of nickel matte, is expected to come into operation late in 1976.

Plans were advanced during 1974 to expand the project's capacity to approximately 100 million pounds annually by 1979. There are ample ore reserves to support this level of production. Financial and governmental arrangements for the expanded facilities, including a hydroelectric power plant on the nearby Larona River, are near completion. The capital costs of the total project are currently estimated at more than $600 million.

### Guatemala

Engineering, procurement and construction activities for the lateritic nickel project of Exploraciones y Explotaciones Mineras Izabal, S.A. (Exmibal), a majority-owned subsidiary, progressed on schedule in Guatemala. Approximately 1,000 contractors' employees were at work on the project at year-end, and in 1975 the work force will reach 1,700.

The ore processing plant is expected to be completed by the end of 1976, with production beginning in 1977 at an annual rate of about 28 million pounds of nickel contained in nickel matte. The total project cost is currently estimated at more than $180 million. Ore reserves are sufficient to support subsequent expansion of the facilities.

### Other Developments

Following preliminary studies and pilot-plant testing of a bulk sample of ore, evaluation began on a lateritic nickel project at Barro Alto in the State of Goiás, Brazil. A preliminary feasibility study is scheduled for completion during 1975. A Brazilian company, Baminco Mineração e Siderurgia, S.A., in which Inco and West German partners have equal interests, holds mining rights over the deposit.

As part of the Company's joint venture with Homestake Mining Company to explore for and develop copper deposits in the Keweenaw Peninsula of Michigan, a prototype-scale production operation, based on a native copper deposit, will commence in the first half of 1975. The annual production rate of this prototype operation will be six million pounds of copper in concentrate.

With a view to the possible future development of the Company's copper-nickel sulphide deposit near Ely, Minnesota, a 10,000-ton bulk sample was mined and metallurgical and pre-operational environmental studies were initiated. The Company's mineral leases are located in the Superior National Forest, and it is expected that the preparation of federal and state environmental impact statements and the completion of other procedures under environmental protection laws will continue into 1976.

Arrangements which have been under consideration during the past year are expected to be completed in early 1975 for the establishment of a joint ocean mining venture among the Company and certain German and Japanese groups having capabilities in the marine, mining and metal processing fields. The consortium would then proceed with a four-year program of design and development work to determine the economic and technical feasibility of mining and processing manganese nodules from the ocean floor to recover nickel, copper and cobalt in commercial quantities.

No progress was made in 1974 with respect to the Company's interest in the possible future development of nickel deposits in New Caledonia.

## Exploration

In 1974, Inco spent $19.9 million on exploration, compared with $17.8 million in 1973. Field work in 1974 was carried out in Canada, the United States, Brazil, Australia, Indonesia, Africa and Mexico. Certain of these exploration projects were conducted in association with partners.

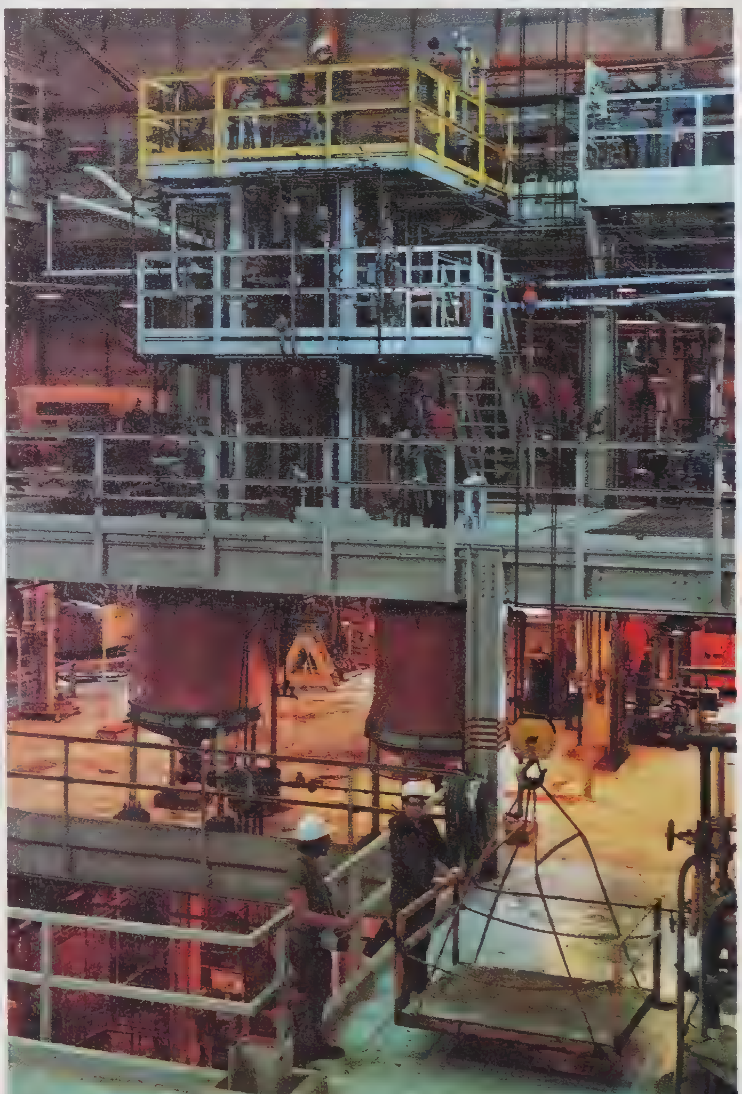
While continuing its extensive exploration for nickel, copper and the platinum-group metals, Inco broadened its search for other resources in 1974. Inco is a 50 per cent participant in an offshore oil and gas exploration venture in Central America; drilling of the first offshore hole in Guatemalan waters is expected to commence early in 1975. An Inco subsidiary and the Tennessee Valley Authority entered into a financing agreement covering uranium exploration in the United States. The Company also continued its participation as a minority shareholder in Panarctic Oils Ltd., which is searching for oil and gas in the Canadian Arctic islands.

## Ore Reserves

Proven reserves are those that have been sampled in sufficient detail to permit reliable calculation of ore tonnages and contained metal.

At the end of 1974, the Company had proven ore reserves in Canada of 414 million short tons, containing 6.7 million tons of nickel and 4.2 million tons of copper. Reserves reported at year-end 1973 were 399 million short tons, containing 6.5 million tons of nickel and 4.1 million tons of copper.

In addition, the Company has very large deposits, principally lateritic, which it is developing or working to develop outside Canada.



Construction of Inco's nickel project in Guatemala moved forward on schedule last year. Shown here is work in progress at the warehouse building.

The J. Roy Gordon Research Laboratory near Toronto (right) and the Port Colborne research stations carry on continuing programs to develop environmentally safe processes for treating nickel sulphide and lateritic ores. Pictured here are autoclaves for pressure-leaching nickel sulphide ores and concentrates on laboratory and pilot-plant scales.

# Corporate Organization

## Directors

Ellmore C. Patterson retired as a Director on September 4, 1974. Mr. Patterson had been a member of the Board and of the Executive Committee for 16 years.

H. C. F. Mockridge, Q.C., retired on February 3, 1975, after 31 years as a Director and 24 years on the Executive Committee. Mr. Mockridge continues to serve the Company as a member of the Advisory Committee.

Robert C. Scrivener, Chairman and Chief Executive Officer of Bell Canada, and Kenneth A. DeLonge, Senior Vice-President of Inco, were elected to the Board of Directors on February 3, 1975.

---

The Honorable Lewis W. Douglas, G.B.E., died on March 7, 1974 in Tucson, Arizona. Mr. Douglas had been a member of the Board of Directors from 1951 to 1971. At the time of his death, he was a member of the Advisory Committee.

---

## Officers

On May 6, 1974, Ashby McC. Sutherland was elected Assistant to the Chairman. He is responsible for policy guidance and coordination of public and governmental relations, and for the supervision of the Public Affairs, Legal and Corporate Secretarial groups.

On the same date, Donald C. McGavin was elected Secretary, and George L. Sutton was elected Chief Legal Officer.

On September 4, Donald E. Munn was elected Regional Vice-President. He is Inco's corporate representative in Manitoba.

On the same date, Winton K. Newman was elected President of the Manitoba Division.

Walter Curlook was elected Vice-President, effective October 1. He is concerned with the Company's planning activities.

## Industrial Relations

Collective agreements were negotiated with the United Steelworkers of America for the Company's rolling mill operations at Huntington and Burnaugh for a period of three years; the agreements expire in January 1978. At Henry Wiggin & Company, scheduled annual negotiations on economic matters, covering 1975, were successfully concluded with production employees, and the agreement with the unions representing craft employees was renegotiated for a one-year term, expiring in November 1975.

At the Clydach refinery, following the termination in mid-year of wage control legislation in the United Kingdom, agreements with production and maintenance employees, originally due to expire in March 1975, were renegotiated and extended to November 30, 1975.

In the Ontario Division, an agreement was negotiated for the first time with maintenance and production employees at Shebandowan. It is effective until November 1, 1975.

During the year, supplementary wage allowances were granted maintenance and production employees in both the Ontario and Manitoba Divisions, where the current three-year agreements expire on July 10, 1975 and February 29, 1976, respectively.

Improvements in several of the retirement and insurance programs for the Company's employees were made during the year.

One of the increasing number of women at Inco's Canadian plants trims a cathode starter sheet at the Thompson refinery.

## Employees

On December 31, 1974, the Company had 32,459 employees engaged in primary metals, rolling mill and related activities, compared with 31,311 at year-end 1973. Of the 1974 total, 23,082 were employed in Canada, 4,399 in the United Kingdom, 4,077 in the United States and 901 elsewhere. These figures do not include the Company's 16,503 ESB personnel.

## Shareholders

On December 31, 1974, the Company had 86,795 shareholders of record, compared with 90,660 at year-end 1973. The Company's record of shareholders shows that 65 per cent have addresses in Canada, 33 per cent in the United States and 2 per cent elsewhere. Canadian residents of record held 50 per cent of the shares outstanding, United States residents of record 35 per cent, and residents of record in other countries 15 per cent.

1

2

3

4


5

1. Ray-O-Vac Heavy Duty Super Cells give long life in transistor radios, flashlights, cassettes, toys and other cordless devices.

2. Exide and Willard batteries have been specially developed to meet the demanding power requirements of golf cars and other battery-powered vehicles.

3. ESB's premium quality automotive batteries are marketed under the company's Exide and Willard "GO"* labels.

4. Popular Ray-O-Vac area light is one of several new products in the ESB line of flashlights and lanterns.

5. Exide industrial batteries ranging in size from a few pounds to several tons are used in a variety of applications.

## ESB Incorporated

ESB, which became a subsidiary of Inco effective as of August 1, 1974, operates more than 100 plants in 18 countries. It is headquartered in Philadelphia, Pennsylvania, and is one of the world's major manufacturers of batteries. The company markets these products under such trademarks as Exide*, Ray-O-Vac* and Willard* and also produces batteries for sale by retail outlets and manufacturers under private brand names. The major portion of the company's battery sales is to the replacement market. ESB also produces electrical and electronic equipment, safety and health products, and specialty chemicals and plastics.

On July 31, 1974, during the course of the Company's tender offer for ESB, the United States Department of Justice announced that it was investigating the acquisition under the U.S. anti-trust laws. Subsequently, the Department of Justice has requested, and the Company and ESB have supplied, information concerning the acquisition. The investigation is continuing.

### Dry Batteries and Portable Lighting Devices

ESB serves the leisure-time market with an extensive line of Ray-O-Vac dry cells and also makes and markets a wide variety of Ray-O-Vac flashlights and lanterns. The company's worldwide dry battery business benefited in 1974 from the growing number and diversity of small battery-powered devices and from rising replacement sales.

Recently introduced Ray-O-Vac battery products include an expanded line of mercury and silver cells for electronic watch and hearing-aid applications, and small, sealed, lead-acid round cells that offer designers a low-cost rechargeable battery system for small appliances, security devices, emergency lighting and portable tools. New Ray-O-Vac lighting devices include table lamps for patio and camping use; a medium-priced, wide-beam lantern; and a lower cost Sportsman* fluorescent lantern to complement the premium model introduced in 1973.

### Automotive Batteries

The major portion of ESB's worldwide automotive battery business is starting, lighting and ignition batteries for cars, trucks and buses. The company also produces these batteries for boats, campers, snowmobiles, garden tractors and motorcycles, as well as propulsion batteries for golf cars and other electric vehicles.

Improved models of electric vehicle and marine batteries were introduced, as well as a new line of automotive batteries for the do-it-yourself market. The latter, marketed in the U.S. under the Sure Start* label, are sold in cartons containing both battery and electrolyte. The company also started production of a long-life battery featuring extra-heavy-duty construction, which Chrysler is offering with a 50,000-mile warranty in its 1975 luxury cars in both Canada and the U.S.

New manufacturing capacity for automotive batteries was added during the year at the Buffalo, New York, and Sumter, South Carolina, plants. At Raleigh, North Carolina, the company purchased and expanded a previously leased plant, and is installing production equipment to produce motorcycle and garden tractor batteries.

### Industrial Batteries

ESB is a major supplier of motive power batteries for industry's growing fleets of electric material-handling equipment, and stationary batteries for utility and communications applications. High demand for these products resulted in strong sales of Exide industrial batteries in the U.S., Canada and other parts of the world.

A major expansion of production capacity for industrial batteries is under way at Sumter. Battery assembly operations have started and when fully integrated production is reached in the summer of 1975, the plant will increase the company's lead-acid industrial battery manufacturing capacity by about 40 per cent.

ESB began production of the industry's first motive power batteries featuring heat-bonded, permanently sealed, polypropylene cases. Other developments included new solid-state chargers, an economy line of industrial batteries for switchgear and uninterruptible power supply (UPS) systems applications, and a battery energy monitor that helps protect both batteries and lift trucks against damage due to over-discharging.

### Electrical and Electronic Products

ESB Universal* motors are used as original equipment in refrigerators, air conditioners and a variety of consumer, commercial and industrial products. In response to appliance manufacturers' interest in energy conservation, new lines of high-efficiency motors are being developed.

ESB produces fractional horsepower motors in the U.S. and India, and both

*ESB trademark

1. An Exide SuperGuardian uninterruptible power supply system provides precisely regulated power for all normal and emergency operations of this control center at a major electric utility, including the operation of three large computers. Exide remote control console (far right in photo) monitors the operation of the system.

2. In hospital intensive-care rooms, ESB's Post-Glover patient service consoles provide outlets and controls for electric power, examination lights, nurse call units, blood pressure meters, as well as oxygen, vacuum and air supplies and other services. Portable power unit on the floor provides isolated power to protect patients against electrical shock hazards.

3. The ESB Pacer Check system permits a cardiologist to check his patient's pacer rate and electrocardiogram over commercial telephone lines.

4. The new Willson respirator, which meets latest safety standards, uses interchangeable filter cartridges to provide protection against a wide variety of in-plant respiratory hazards.

5. ESB supplies electric motors to manufacturers of household appliances and commercial and industrial equipment under its Universal trademark.

1

2

4

5

3

fractional and integral horsepower motors in the United Kingdom. The first section of a new fractional horsepower motor plant was completed at Gainsborough, England, to provide additional capacity for the European market.

Sales of the Exide SuperGuardian* power system, introduced in 1974, were encouraging both in the United States and Canada. These UPS systems, which consist of power converters combined with heavy-duty stationary batteries and solid-state rectifiers, provide the precisely regulated, uninterruptible power required for the dependable operation of computer-controlled equipment.

**Safety, Health and Medical**

Major products of ESB's Willson Group are Willson* and Miller* personal safety devices, Couch* fire alarm and private telephone systems, Exide emergency lighting devices, and Post-Glover* hospital utility consoles.

Anticipating new governmental safety regulations affecting respiration protection, the company introduced two lines of Willson respirators. For the building safety market, the company's new Centaurus* emergency power unit automatically provides AC power for fluorescent lights, fire alarms, security systems, public address systems and other essential building services in the event of a power failure.

The operations of the Couch, Exide Lightguard and Post-Glover Divisions were consolidated into a new operating unit, the Exide Safety Systems Division. It is moving its headquarters in 1975 from North Quincy, Massachusetts, to a larger, modern facility at Randolph, Massachusetts. An additional plant for the manufacture of Miller personal safety equipment is under construction at Porterville, California.

In the medical-electronics field, demand for ESB's Pacer Check* monitoring system is exceeding projections.

**Chemicals and Plastics**

ESB's specialty chemicals include adhesives, coatings, binders, cements and foams, which are sold primarily to the construction and maintenance markets. The company produces specialty chemical and plastic products for a variety of industries, including battery chemicals, sealants and cases for ESB and other battery companies.

**Employees**

On December 31, 1974, ESB had 16,503 employees, compared with 17,168 at year-end 1973. Of these, 10,823 were employed in the United States and 5,680 in other countries.

The company currently has union contracts with 49 separate bargaining units in the U.S. and Canada. During the year, 22 of these contracts expired and were successfully renegotiated. Strikes at one Canadian and two U.S. plants preceded three of the above settlements. The longest of the strikes lasted 29 days. The company entered 1975 with two open contracts as a result of strikes, involving a total of 138 employees, at the Toronto industrial battery plant and the Mertztown, Pennsylvania, specialty chemicals plant.

*ESB trademark

**ESB Incorporated**

Corporate Headquarters: 5 Penn Center Plaza,
Philadelphia, Pennsylvania 19103, U.S.A.

Edward J. Dwyer
Chairman of the Board

Frederick J. Port
President and Chief Executive Officer

**105 Plants in 18 Countries**

*Batteries & Related Electrical and Electronic Products:*
32 plants in the U.S.; 9 in Canada; 6 in South Africa; 5, Brazil; 4, Japan; 3, Mexico; 3, Venezuela; 2, Iran; and one plant in each of the following countries: Colombia, Dominican Republic, Guatemala, Morocco, Nicaragua, Peru, Thailand, the U.K. and Zaire

*Electric Motors:*
4 plants in the U.S.; 2 in the U.K.; 1 in India

*Safety & Health Products:*
7 plants in the U.S.; 1 in Canada; 1 in Mexico

*Chemicals, Plastics & Other:*
9 plants in the U.S.; 3 in Brazil; 3 in the U.K.; 1 in Mexico

*Technology Center*
Yardley, Pennsylvania

## Consolidated Statement of Earnings and Retained Earnings

The International Nickel Company of Canada, Limited and subsidiaries

| Year ended December 31 | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Revenues** | | |
| Net sales | $1,684,608 | $1,172,814 |
| Other income (Note 3) | 35,123 | 18,285 |
| | 1,719,731 | 1,191,099 |
| **Costs and expenses** | | |
| Costs | 888,440 | 644,340 |
| Selling, general and administrative expenses (Note 4) | 101,468 | 60,046 |
| Depreciation and depletion (Note 5) | 97,360 | 76,837 |
| Interest expense (Notes 6 and 7) | 45,031 | 42,332 |
| Pension expense | 32,999 | 21,265 |
| | 1,165,298 | 844,820 |
| **Earnings before income and mining taxes** | 554,433 | 346,279 |
| **Income and mining taxes** (Note 8) | 248,431 | 119,420 |
| **Net earnings** | 306,002 | 226,859 |
| **Retained earnings at beginning of year** | 1,067,766 | 930,350 |
| | 1,373,768 | 1,157,209 |
| **Dividends paid** ($1.60 per share in 1974; $1.20 per share in 1973) | 119,267 | 89,443 |
| **Retained earnings at end of year** | $1,254,501 | $1,067,766 |
| **Net earnings per share** | $4.11 | $3.04 |

The explanatory financial section on pages 25 through 28 is an integral part of these statements.

## Auditors' Report

To the Shareholders of The International Nickel Company of Canada, Limited:

We have examined the financial statements appearing on pages 22 through 28 of this report. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of The International Nickel Company of Canada, Limited and subsidiaries at December 31, 1974 and 1973 and the results of their operations and changes in financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

February 13, 1975

PRICE WATERHOUSE & CO.

## Consolidated Balance Sheet

The International Nickel Company of Canada, Limited and subsidiaries

| December 31 | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Current assets** | | |
| Cash | $ 26,606 | $ 14,818 |
| Marketable securities, at cost which approximates market | 234,616 | 179,832 |
| Accounts receivable, less allowance for doubtful accounts | 331,851 | 254,955 |
| Inventories (Note 9) | 533,406 | 372,796 |
| Prepaid expenses | 7,219 | 3,616 |
| Total current assets | 1,133,698 | 826,017 |
| **Property, plant and equipment** (Note 5) | 2,334,268 | 2,084,527 |
| Less — Accumulated depreciation and depletion (Note 5) | 774,044 | 689,082 |
| | 1,560,224 | 1,395,445 |
| **Other assets** | | |
| Investments in and advances to affiliates, on an equity basis | 33,946 | 9,075 |
| Miscellaneous securities, at cost | 16,583 | 12,681 |
| Charges to future operations | 9,254 | 5,614 |
| Cost in excess of net assets of business acquired (Note 2) | 42,929 | — |
| | 102,712 | 27,370 |
| Total assets | $2,796,634 | $2,248,832 |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | $ 218,218 | $ 117,338 |
| Long-term debt due within one year (Note 6) | 4,382 | 13,111 |
| Notes payable (Note 7) | 77,978 | 32,651 |
| Income and mining taxes payable (Note 8) | 178,913 | 118,982 |
| Total current liabilities | 479,491 | 282,082 |
| **Other liabilities** | | |
| Long-term debt (Note 6) | 523,296 | 411,250 |
| Deferred income and mining taxes (Note 8) | 311,100 | 274,000 |
| Pension benefits | 28,583 | 13,810 |
| Insurance, operating purposes and exchange (Note 10) | 27,079 | 30,810 |
| Minority interest | 15,574 | 12,333 |
| | 905,632 | 742,203 |
| **Shareholders' equity** | | |
| Common shares without nominal or par value, issued 74,542,460 shares; 1973 — 74,535,685 shares (Notes 11 and 12) | 95,974 | 95,745 |
| Capital surplus | 61,036 | 61,036 |
| Retained earnings | 1,254,501 | 1,067,766 |
| | 1,411,511 | 1,224,547 |
| Total liabilities and shareholders' equity | $2,796,634 | $2,248,832 |

The explanatory financial section on pages 25 through 28 is an integral part of these statements.

Approved by the Board of Directors:

L.Edward Grubb

J.Edwin Carter

## Consolidated Statement of Changes in Financial Position

The International Nickel Company of Canada, Limited and subsidiaries

| Year ended December 31 | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Financial resources were provided by** | | |
| Net earnings | **$306,002** | $226,859 |
| Add income charges not affecting working capital | | |
| Depreciation and depletion | **97,360** | 76,837 |
| Deferred income and mining taxes | **37,100** | 16,300 |
| Write-off of obsolete fixed assets | **8,534** | 17,239 |
| Other – net | **770** | 2,833 |
| Working capital provided by operations | **449,766** | 340,068 |
| Long-term borrowings | **39,583** | 10,157 |
| Minority interest | **2,030** | 12,333 |
| Total | **491,379** | 362,558 |
| **Financial resources were used for** | | |
| Dividends paid to shareholders | **119,267** | 89,443 |
| Capital expenditures | **149,242** | 88,814 |
| Acquisition of ESB Incorporated, net of working capital acquired | **104,651** | — |
| Repayment of long-term debt | **3,745** | 32,778 |
| Other – net | **4,202** | 3,239 |
| Total | **381,107** | 214,274 |
| **Increase in working capital** | **$110,272** | $148,284 |

### Analysis of changes in working capital

| | | |
|---|---|---|
| **Increase (decrease) in current assets** | | |
| Cash and marketable securities | **$ 66,572** | $145,152 |
| Accounts receivable | **76,896** | 91,067 |
| Inventories | **160,610** | (63,229) |
| Prepaid expenses | **3,603** | (75) |
| Total | **307,681** | 172,915 |
| **Increase (decrease) in current liabilities** | | |
| Accounts payable and accrued expenses | **100,880** | (20,583) |
| Notes payable and other debt | **36,598** | (27,859) |
| Income and mining taxes payable | **59,931** | 73,073 |
| Total | **197,409** | 24,631 |
| **Increase in working capital** | **$110,272** | $148,284 |

The explanatory financial section on pages 25 through 28 is an integral part of these statements.

### Note 1 – Summary of significant accounting policies

This summary of the major accounting policies of The International Nickel Company of Canada, Limited and subsidiaries is presented to assist the reader in evaluating the financial statements contained in this Report. These policies have been followed consistently in all material respects for the periods covered in the financial statements.

The financial statements consolidate the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, conform with those established in the United States.

The statements are expressed in United States currency. Current assets, current liabilities and the liability for pension benefits in the Consolidated Balance Sheet are translated at year-end rates of exchange. The translation of all other assets and liabilities generally recognizes the rates historically applicable. Revenues, costs and expenses are translated at weighted average rates prevailing during each period; depreciation and depletion are translated at historical rates. Exchange adjustments resulting from the translation of items from currencies other than United States currency are applied to the accumulated liability for exchange. In periods when the exchange adjustment is a charge exceeding the accumulated liability for exchange, the excess is charged to earnings. Realized exchange gains or losses are recognized in earnings.

Inventories are stated at the lower of cost or net realizable value. Cost for metals is average production or purchase cost, and for supplies is average purchase cost. Cost for batteries and related products is determined principally on a first-in, first-out basis. Inventory records are adjusted from time to time to physical stock-takings.

Substantially all property, plant and equipment is stated at cost. Such cost in the case of the Company's mines – virtually all of which were discovered and developed by the Company – represents, with relatively minor exceptions, only that part of related development and acquisition costs which was capitalized. All expenditures relating to the Indonesian and Guatemalan projects, presently under development, are capitalized.

Depreciation is calculated using the straight-line method based on the estimated economic lives of property, plant and equipment. Such lives are generally limited to a maximum of twenty years and are subject to periodic review. This limitation, adopted in 1974, did not have a material effect on earnings. Depletion is calculated by a method which allocates the related recorded costs, established as explained above, ratably to the tons of ore mined. Depletion is the systematic amortization of the recorded costs of the Company's mines and does not represent the decrease, if any, in the value of ore reserves as a result of ore mined.

The excess of purchase cost over the fair value of net assets, relating to the acquisition of ESB Incorporated, is amortized on a straight-line basis over fifteen years.

Except in areas currently under development where production is highly probable, exploration expenditures are expensed as incurred.

Research and development expenditures, except for land, buildings and equipment, the usefulness of which extends beyond the immediate life of a project, are expensed as incurred. Research and development expense totalled $31,461,000 in 1974 and $24,317,000 in 1973.

The Company and its subsidiaries have several pension plans covering substantially all employees. Costs are provided for, and funded, based on actuarial estimates. Past service costs at December 31, 1974 amounted to $80,000,000, the major portion of which will be charged to operations over the next 15 years. At December 31, 1974, the vested benefits exceeded the assets of the Trust Funds and balance sheet accruals by approximately $20,000,000, due in large measure to a general decline in the securities market.

As a result of tax regulations, certain timing differences exist in the reporting of deductions for book and tax purposes, primarily depreciation. Income and mining taxes in the Consolidated Statement of Earnings and Retained Earnings include deferred taxes. The provisions for United States taxes reflect the "flow-through" method of accounting for the investment credit. The amounts of credit were not material.

The Company has not provided for certain taxes that might become payable if undistributed earnings of subsidiaries were to be paid as dividends because only a minor portion of such earnings has not been or will not be reinvested.

The calculation of earnings per share is based on the weighted average number of common shares outstanding. The common stock equivalents of outstanding stock options do not dilute earnings per share.

### Note 2 – Acquisition of ESB Incorporated

Effective as of August 1, 1974, the Company acquired ESB Incorporated, a major battery producer with operations in the United States, Canada, Mexico and many other countries, at a cost of $233,794,000. The acquisition is being accounted for as a purchase. Accordingly, the consolidated financial statements include the assets and liabilities of ESB as of December 31, 1974 and the results of its operations and changes in financial position for the five months then ended.

The acquisition cost has been allocated as follows based on the fair value of the underlying net assets at acquisition:

| | | (in thousands) |
|---|---|---|
| Current assets | | $239,272 |
| Property, plant and equipment | | 124,510 |
| Investments in and advances to affiliates | | 23,257 |
| Other items – net | | 4,598 |
| | | 391,637 |
| Current liabilities | $110,129 | |
| Long-term debt | 76,208 | |
| Liability for pension benefits | 15,661 | 201,998 |
| Net assets at acquisition | | 189,639 |
| Cost in excess of net assets acquired | | 44,155 |
| | | $233,794 |

ESB's net sales for the five months ended December 31, 1974 were $233,976,000. The contribution to 1974 consolidated net earnings from ESB's operations was not significant; this contribution consisted of earnings from ESB's operations for the five months

since its acquisition, adjusted for the effect of purchase accounting procedures applicable to the acquisition. If the acquisition had been effected as of December 31, 1972, consolidated net sales would have increased by $409,086,000 in 1973 and by $278,434,000 in the first seven months of 1974; after pro forma adjustments, the effect of ESB's results on consolidated net earnings would not have been significant in either of these periods.

On July 31, 1974, during the course of the Company's tender offer for ESB, the United States Department of Justice announced that it was investigating the proposed acquisition, that the investigation was routine and in its preliminary stages, and that no decision had yet been made to challenge the acquisition. Subsequently, the Department of Justice has requested, and the Company and ESB have provided, information concerning the acquisition. The investigation is continuing.

On December 20, 1974, The International Nickel Company, Inc., a wholly-owned subsidiary of the Company, became by statutory merger the sole shareholder of ESB. Prior to the merger, the subsidiary owned approximately 98 per cent of the then outstanding ESB shares. The former holders of the balance of the ESB shares, upon surrender of their stock certificates for cancellation, are being paid $41 per share, the same price paid under the terms of the tender offer. At December 31, 1974, certificates for 128,620 shares had not been surrendered for cancellation.

**Note 3 – Other income**

Other income includes interest, dividends, income from equity interests in affiliates and joint ventures, and net gain on sale of assets.

**Note 4 – Remuneration of directors and officers**

Selling, general and administrative expenses include remuneration of directors and officers of the Company (including past officers) as follows:

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| Aggregate remuneration – as directors (21 in 1974, 27 in 1973) paid by: | | |
| The International Nickel Company of Canada, Limited | $ 226 | $ 211 |
| The International Nickel Company, Inc. | 4 | 14 |
| Total | $ 230 | $ 225 |
| Aggregate remuneration – as officers (41 in 1974, 38 in 1973) paid by: | | |
| The International Nickel Company of Canada, Limited | $3,540 | $2,852 |
| The International Nickel Company, Inc. | 187 | 219 |
| Other subsidiaries | — | 80 |
| Total | $3,727 | $3,151 |

Number of directors who are also officers: 6 in 1974, 4 in 1973

**Note 5 – Property, plant and equipment**

Property, plant and equipment consists of the following:

| December 31 | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| Mines and mining plants | $ 874,562 | $ 844,505 |
| Smelters | 584,826 | 584,693 |
| Refineries | 300,870 | 292,768 |
| Rolling mills | 249,832 | 237,891 |
| Battery and related product facilities | 113,293 | — |
| Indonesian and Guatemalan projects, under development | 134,459 | 70,026 |
| Other | 76,426 | 54,644 |
| | 2,334,268 | 2,084,527 |
| Less: | | |
| Accumulated depreciation | 591,554 | 528,922 |
| Accumulated depletion | 182,490 | 160,160 |
| | 774,044 | 689,082 |
| | $1,560,224 | $1,395,445 |

The provision for depreciation and depletion of $97,360,000 for 1974 includes depreciation of $75,030,000 and depletion of $22,330,000. The 1973 provision of $76,837,000 includes depreciation of $56,873,000 and depletion of $19,964,000.

**Note 6 – Long-term debt**

Outstanding long-term debt consists of the following:

| December 31 | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| Debentures, 6.85% due 1993 | $150,000 | $150,000 |
| Debentures, 9.25% due 1990 | 73,643 | 73,643 |
| Debentures, 7.50% due 1978 | 73,275 | 73,275 |
| Debentures, 8.625% due 1991 | 73,275 | 73,275 |
| Borrowings of Indonesian subsidiary | 48,163 | 8,580 |
| Bank term loan, due 1981 | 50,000 | — |
| Revolving credit loans, at prime rate | 20,000 | — |
| Other loans due 1975-1989, average rate 9.3% in 1974, (10.8% in 1973) | 39,322 | 45,588 |
| | 527,678 | 424,361 |
| Less: | | |
| Long-term debt due within one year | 4,382 | 13,111 |
| Long-term debt | $523,296 | $411,250 |

The 6.85% debentures require sinking fund payments totalling $114,000,000 from 1979 through 1992 in annual installments ranging from $6,000,000 to $11,000,000. The 9.25% debentures require sinking fund payments of $2,000,000 (Can.) annually from 1976 through 1989.

The 7.50% debentures are not subject to sinking fund requirements and are not redeemable prior to maturity. The 8.625% debentures require sinking fund payments of $2,000,000 (Can.) annually from 1977 through 1990.

The bank term loan to ESB Incorporated of $50,000,000 at December 31, 1974 bears interest of 1% above the prime rate,

limited to a maximum cumulative average of 9%.

The revolving credit agreement with three banks provides for prime interest rate loans of up to $40,000,000, with a minimum of $20,000,000 borrowed at all times. The agreement terminates June 30, 1975 with provision for four one-year extensions at the option of ESB Incorporated.

The Company's majority-owned Indonesian and Guatemalan subsidiaries have entered into agreements with various lenders which provide for long-term credits of approximately $125,000,000 and $93,000,000, respectively. Fees averaging 4/10 of 1% per annum are payable on the unused portions of these credits. The credit agreements of the Indonesian subsidiary relate to the first stage of its Soroako nickel project. At December 31, 1974, $48,163,000 had been drawn down by the Indonesian subsidiary at interest rates ranging from 6% to 11.8% per annum. While the Company has entered into undertakings to support the financing of the Indonesian subsidiary, it has not extended a direct financial guarantee of its debt. In addition, the Indonesian subsidiary has obtained offers from various financial institutions for assistance in financing the planned expansion of its Soroako nickel project. Fees averaging 4/10 of 1% per annum are currently being paid on $200,000,000 under this arrangement. At December 31, 1974, no other long-term financing agreements had been entered into by the Company or its subsidiaries.

Long-term debt maturities and sinking fund requirements for each of the five years through 1979 are: 1975 – $4,382,000; 1976 – $11,500,000; 1977 – $16,233,000; 1978 – $86,319,000; 1979 – $37,007,000.

Certain elements of long-term debt are payable in other than United States currency and, in accordance with the Company's policy, have been translated at the rates historically applicable. Translated at the rates of exchange in effect on December 31, 1974, long-term debt, net of the portion due within one year, would be $539,520,000.

Interest expense on long-term debt was $36,691,000 in 1974 and $36,153,000 in 1973.

### Note 7 – Notes payable

At December 31, 1974, the Company had $77,978,000 outstanding in notes payable, including $56,596,000 payable by ESB Incorporated. The notes payable consist of $48,059,000 (U.S.), $2,608,000 (Can.), £9,560,000 and other currency loans with a U.S. dollar equivalent of $4,859,000. At December 31, 1973, the Company had $32,651,000 outstanding in notes payable, consisting of $8,000,000 (Can.) and £10,600,000.

### Note 8 – Income and mining taxes

The provisions for income and mining taxes for the two years were as follows:

| | **1974** | 1973 |
|---|---|---|
| | (in thousands) | |
| Future deferred | **$ 37,100** | $ 16,300 |
| Current deferred | **5,900** | (6,500) |
| Total deferred taxes | **43,000** | 9,800 |
| Current taxes | **205,431** | 109,620 |
| Provision for the year | **$248,431** | $119,420 |
| Canada | **$213,987** | $106,046 |
| Other (principally United States and United Kingdom) | **34,444** | 13,374 |
| | **$248,431** | $119,420 |

The provisions for income and mining taxes for 1974 and 1973 amounted to $248,431,000 and $119,420,000, or 44.8% and 34.5%, respectively, of earnings before taxes. The combined Canadian federal-provincial statutory income tax rate was 41.5% for 1974 and 51.1% for 1973. The reconciliation between the combined statutory income tax rates and the effective tax rates follows:

| | **1974** | 1973 |
|---|---|---|
| | Percentage of earnings before income and mining taxes | |
| Combined Canadian federal-provincial statutory income tax rate | **41.5%** | 51.1% |
| Less: Canadian federal-provincial percentage depletion | **10.4** | 15.6 |
| | **31.1** | 35.5 |
| Canadian provincial mining taxes | **15.2** | 7.5 |
| Less: Canadian federal-provincial income tax relief | **1.4** | 2.3 |
| | **13.8** | 5.2 |
| Statutory exemptions from income tax (principally income from new Canadian mines) | — | (6.5) |
| Other | **(0.1)** | 0.3 |
| Effective tax rate for year | **44.8%** | 34.5% |

The higher provision for taxes in 1974 is attributable mainly to the increase in earnings, to higher rates for Ontario mining and Manitoba royalty taxes effective in April, 1974, and to the termination of tax exemption on income from new mines. The provision also reflects the Ontario corporate and Canadian federal income tax legislation introduced during the year, effective in April, 1974 and May, 1974, respectively.

Tax exemption approval for all new mines, including mines that were in production in the years 1969 through 1973, has now been received from the Department of National Revenue. By legislation, such new mine income exemptions were terminated effective December 31, 1973.

The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of $311,100,000 in the Consolidated Balance Sheet. The cumulative tax effect of timing differences relating to items of a current nature of $17,900,000 is included in the current liability for income and mining taxes payable.

### Note 9 – Inventories

Inventories at December 31 comprised:

| | **1974** | 1973 |
|---|---|---|
| | (in thousands) | |
| Metals | | |
| Finished and in-process | **$344,159** | $325,561 |
| Supplies | **60,472** | 47,235 |
| | **404,631** | 372,796 |
| Batteries and other products | | |
| Finished and in-process | **78,549** | — |
| Raw materials and supplies | **50,226** | — |
| | **128,775** | — |
| Total | **$533,406** | $372,796 |

## Note 10 – Liabilities for insurance, operating purposes and exchange

These liabilities consist of the following:

| December 31 | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| Self-insurance | **$20,000** | $20,000 |
| Operating purposes | **3,948** | 6,142 |
| Exchange | **3,131** | 4,668 |
| | **$27,079** | $30,810 |

## Note 11 – Stock option plans

The Key Employees Stock Option Plan, ratified by shareholders at the Annual Meeting on April 24, 1957, authorized the granting of options on 1,750,000 unissued common shares at prices not less than 95% of the fair market value on the day the options were granted. The options are exercisable in installments beginning not earlier than one year after date of grant over a period not exceeding ten years from the date of grant. During 1974, options were exercised for 5,350 shares at $32.70 a share and options for 13,500 shares expired. As at December 31, 1974, options for a total of 1,616,944 shares had been exercised, and 51,115 shares (including 24,475 shares for officers, directors as such not being entitled to participate) were subject to outstanding options granted in August, 1966 at a price of $32.70 a share. This plan was terminated in 1968 except as to options then outstanding and no further options may be granted thereunder.

The Key Employees Incentive Plan, ratified by shareholders at the Special General Meeting on July 17, 1968, authorized the granting of options to purchase up to 1,000,000 common shares at prices not less than 100% of their market value, determined in accordance with the Plan, on the day the option is granted. The Plan provides that no shares subject to option shall be purchasable prior to the expiration of one year after the date of grant nor after a period not exceeding ten years from the date of grant. During 1974, options for 256,700 shares were granted, options for 1,425 shares were exercised at $37.44 a share, and options for 120,288 shares expired. As of December 31, 1974, options for a total of 5,387 shares had been exercised, 294,714 shares were available for future grants, and 699,899 shares (including 355,700 shares for officers, directors as such not being entitled to participate) were subject to outstanding options as follows:

| Date of grant | Option price per share | Shares for officers | Total shares |
|---|---|---|---|
| February 1969 | $37.75 | 69,500 | 85,000 |
| April 1969 | 37.44 | 29,300 | 116,374 |
| August 1969 | 35.19 | — | 3,000 |
| April 1970 | 45.88 | 34,500 | 67,700 |
| April 1971 | 44.50 | 34,500 | 67,625 |
| January 1972 | 32.32 | 22,000 | 22,000 |
| April 1972 | 33.00 | 20,000 | 20,000 |
| October 1972 | 34.50 | 41,000 | 62,000 |
| August 1974 | 27.00 | 32,200 | 92,900 |
| August 1974 | 27.19 | 72,700 | 163,300 |
| | | 355,700 | 699,899 |

The proceeds from exercise of stock options have been credited to the common shares account.

On August 14, 1974, the Company authorized the substitution of 29,694 common shares of the Company to replace shares of common stock of ESB Incorporated (a company acquired effective as of August 1, 1974) under options previously granted by ESB and held by certain of its key employees. The number of common shares of the Company so substituted, and the option prices per share thereof, were determined in accordance with Section 425 of the U.S. Internal Revenue Code on the basis of the number of ESB shares subject to option, the option price thereon, and the price of $41 per share paid for ESB shares in the acquisition of ESB. The substituted options outstanding at December 31, 1974, none of which are held by directors or officers of the Company, are as follows:

| Date of grant by ESB | Option price per Inco share | Total shares |
|---|---|---|
| September 1965 | $12.36 | 4,067 |
| March 1973 | 18.24 | 1,507 |
| June 1974 | 13.10 | 24,120 |
| | | 29,694 |

## Note 12 – Common shares

Effective September 9, 1974, the Company reclassified all existing 90,000,000 authorized common shares as Class A Common Shares and increased the authorized capital of the Company by creating an equal number of Class B Common Shares. The two classes are interconvertible at any time and are similar in all respects, including dividend rights, except that dividends on Class B shares may be declared payable out of "1971 capital surplus on hand" as defined in the Income Tax Act of Canada. At December 31, 1974, there were 74,542,460 common shares issued and outstanding comprised of 46,700,692 Class A shares and 27,841,768 Class B shares.

# Supplementary Financial Information

The International Nickel Company of Canada, Limited and subsidiaries

### Quarterly Data

| Year ended December 31 | 1974 | 1973 |
|---|---|---|
| **Net sales** (in thousands) | | |
| First quarter | $ 333,414 | $ 232,456 |
| Second quarter | 408,373 | 301,913 |
| Third quarter | 450,368 | 275,397 |
| Fourth quarter | 492,453 | 363,048 |
| Year | $1,684,608 | $1,172,814 |
| **Net earnings** (in thousands) | | |
| First quarter | $ 75,164 | $ 36,103 |
| Second quarter | 78,143 | 56,442 |
| Third quarter | 78,413 | 58,629 |
| Fourth quarter | 74,282 | 75,685 |
| Year | $ 306,002 | $ 226,859 |
| **Net earnings per share** | | |
| First quarter | $1.01 | $ .48 |
| Second quarter | 1.05 | .76 |
| Third quarter | 1.05 | .79 |
| Fourth quarter | 1.00 | 1.01 |
| Year | $4.11 | $3.04 |
| **Dividends paid per share** | | |
| First quarter | $ .30 | $ .25 |
| Second quarter | .35 | .25 |
| Third quarter | .35 | .25 |
| Fourth quarter | .35 | .30 |
| Year-end extra | .25 | .15 |
| Year | $1.60 | $1.20 |

### Lines of Business Data

| Year ended December 31 | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Net sales** | | |
| Metals | $1,450,632 | $1,172,814 |
| Batteries and related products* | 195,596 | — |
| Other* | 38,380 | — |
| Total net sales | $1,684,608 | $1,172,814 |
| **Earnings before income and mining taxes** | | |
| Metals | $ 548,505 | $ 346,279 |
| Batteries and related products* | 6,294 | — |
| Other* | (366) | — |
| Total earnings before taxes | $ 554,433 | $ 346,279 |

*Consists of ESB's net sales and contribution to earnings before income and mining taxes for the five months since acquisition.

### Market Price Range Per Share

| | 1974 | 1973 |
|---|---|---|
| **New York Stock Exchange** | | |
| First quarter | $40⅛ – 33½ | $36⅝ – 32 |
| Second quarter | 36⅜ – 27¼ | 33⅜ – 27 |
| Third quarter | 30 – 21¾ | 36 – 27⅛ |
| Fourth quarter | 24¾ – 18⅞ | 37⅞ – 29¾ |
| **Toronto Stock Exchange** (Canadian dollars) | | |
| First quarter | $39 – 33⅜ | $36¾ – 31⅞ |
| Second quarter | 35¼ – 26¼ | 33⅜ – 27 |
| Third quarter | 29¼ – 21½ | 36 – 27⅛ |
| Fourth quarter | 24⅜ – 18⅝ | 38 – 29¾ |

## Pension Trust Funds

The Company and its subsidiaries have pension and retirement plans covering substantially all employees. Irrevocable Pension Trust Funds, which are separate and distinct from the accounts of the Company and its subsidiaries, have been established to implement these pension plans. The Funds consist of Government bonds and other marketable securities at cost, cash and other assets.

Trust Fund operations for the past two years are summarized as follows:

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| Balance in Funds at beginning of year | $272,982 | $252,772 |
| Add: | | |
| Fund balances relating to ESB Incorporated, acquired in 1974 | 31,057 | — |
| Company contributions | 27,256 | 19,577 |
| Employee contributions | 243 | 85 |
| Income from investments | 11,734 | 16,815 |
| | 70,290 | 36,477 |
| Deduct: Benefits paid | 21,357 | 16,267 |
| Balance in Funds at end of year | $321,915 | $272,982 |

A copy of the 1974 annual report on Form 10-K to be filed with the United States Securities and Exchange Commission may be obtained from the Company upon request. Requests should be addressed to The Secretary, The International Nickel Company of Canada, Limited at Toronto-Dominion Centre, Toronto, Ontario M5K 1E3 or at One New York Plaza, New York, New York 10004.

# Ten-Year Review

The International Nickel Company of Canada, Limited and subsidiaries

| | **1974*** | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Summary of Operations** (in thousands) | | | | | | | | | | |
| Net Sales | **$1,684,600** | 1,172,800 | 900,300 | 789,200 | 1,055,800 | 684,200 | 767,300 | 713,200 | 694,100 | 634,800 |
| Costs** | **$ 888,400** | 644,300 | 595,400 | 526,300 | 620,200 | 432,400 | 471,500 | 435,700 | 453,100 | 343,200 |
| Interest Expense | **$ 45,000** | 42,300 | 43,800 | 33,900 | 17,100 | 13,400 | 6,500 | — | — | — |
| Income and Mining Taxes | **$ 248,400** | 119,400 | 42,300 | 23,100 | 121,100 | 57,700 | 86,800 | 78,300 | 69,000 | 93,500 |
| Net Earnings | **$ 306,000** | 226,900 | 109,900 | 94,200 | 208,600 | 116,500 | 143,700 | 141,800 | 118,200 | 143,800 |
| Per Share # | **$ 4.11** | 3.04 | 1.47 | 1.26 | 2.80 | 1.56 | 1.93 | 1.90 | 1.59 | 1.94 |
| Dividends | **$ 119,300** | 89,400 | 74,500 | 96,900 | 104,200 | 89,300 | 91,500 | 89,100 | 83,100 | 90,300 |
| Per Share # | **$ 1.60** | 1.20 | 1.00 | 1.30 | 1.40 | 1.20 | 1.23 | 1.20 | 1.12 | 1.22 |
| Shares Outstanding (weighted average) # | **74,541** | 74,535 | 74,525 | 74,499 | 74,435 | 74,401 | 74,363 | 74,255 | 74,249 | 74,155 |
| **Other Financial Data** (in thousands) | | | | | | | | | | |
| Capital Expenditures† | **$ 149,200** | 88,800 | 125,200 | 244,200 | 272,500 | 175,200 | 175,400 | 145,700 | 73,000 | 62,700 |
| Exploration Expenditures† | **$ 19,900** | 17,800 | 18,700 | 32,900 | 31,900 | 19,900 | 17,000 | 13,300 | 11,700 | 12,300 |
| Working Capital | **$ 654,200** | 543,900 | 395,700 | 387,300 | 375,800 | 356,300 | 430,800 | 321,000 | 373,600 | 375,200 |
| Net Property, Plant and Equipment | **$1,560,200** | 1,395,400 | 1,402,200 | 1,351,900 | 1,167,700 | 940,000 | 798,300 | 652,200 | 532,600 | 485,700 |
| Total Assets‡ | **$2,796,600** | 2,248,800 | 2,078,300 | 2,094,800 | 1,827,400 | 1,477,000 | 1,396,200 | 1,120,300 | 1,022,800 | 986,800 |
| Shareholders' Equity | **$1,411,500** | 1,224,500 | 1,087,100 | 1,051,400 | 1,052,500 | 946,500 | 918,400 | 865,200 | 808,400 | 770,900 |
| Return on Total Assets | **10.9%** | 10.1% | 5.3% | 4.5% | 11.4% | 7.9% | 10.3% | 12.7% | 11.6% | 14.6% |
| Return on Shareholders' Equity | **21.7%** | 18.5% | 10.1% | 9.0% | 19.8% | 12.3% | 15.6% | 16.4% | 14.6% | 18.7% |
| **Operating Data** (in thousands) | | | | | | | | | | |
| Ore Mined – short tons | **22,000** | 19,700 | 19,200 | 27,600 | 27,700 | 18,300 | 24,300 | 19,900 | 17,100 | 19,300 |
| Nickel Deliveries – pounds | **549,100** | 517,000 | 425,100 | 342,500 | 518,900 | 382,200 | 480,800 | 463,500 | 500,200 | 493,000 |
| Copper Deliveries – pounds | **367,200** | 327,100 | 308,200 | 340,300 | 348,100 | 208,200 | 314,200 | 310,900 | 293,000 | 275,900 |
| Platinum-Group Metals and Gold Deliveries – troy ounces | **317** | 413 | 452 | 437 | 388 | 422 | 441 | 476 | 501 | 511 |
| **Other Statistics** | | | | | | | | | | |
| Employees – metals business | **32,459** | 31,311 | 32,082 | 36,089 | 37,313 | 34,321 | 33,314 | 32,552 | 31,837 | 32,512 |
| – ESB Incorporated | **16,503** | | | | | | | | | |
| Shareholders | **86,795** | 90,660 | 92,024 | 92,217 | 84,320 | 84,219 | 75,587 | 64,207 | 67,120 | 65,965 |

* Includes applicable data relating to ESB Incorporated for the five months since acquisition.

** As in the Company's classification of costs in the Consolidated Statement of Earnings and Retained Earnings.

\# As adjusted to reflect the split of shares on a 2½ for 1 basis in 1968.

† Includes capitalized exploration expenditures.

‡ Does not include any value for the minerals in the major portion of the Company's ore reserves.

## Management's Discussion and Analysis of the Summary of Operations

As the Company's 1970 Annual Report indicated, 1970 was a year of solid achievement. Metal deliveries, net sales and net earnings were the highest in the Company's history until that time. However, the results of operations for 1971 were considerably lower. Net sales and net earnings dropped 25 per cent and 55 per cent, respectively. Because Inco, unlike other nickel producers, did not have fixed quantity sales agreements in effect, the sharp decline in the free world demand for nickel left the Company to contend with a severely depressed market. But these adverse conditions led to the development of marketing and cost-control programs which have since yielded substantial benefits.

The effects of these programs began to be felt in 1972. Higher deliveries of nickel and rolling mill products more than offset a 9 per cent drop in copper deliveries as net sales rose by about $111 million, an increase of 14 per cent over 1971, and net earnings improved 17 per cent to $110 million.

With an improving economy, sales for 1973 reached a new high as prices increased and deliveries approached the record level set in 1970. Substantial inventories built up during 1971 and flexible marketing programs, as well as expanded production, placed the Company in a position to meet this demand. The introduction in North America of nickel pellets and Incomet nickel permitted the Company to be more responsive to customers' needs. The increased level of metal deliveries at improved prices and the continuing benefits from the Company's cost-containment program were the principal factors contributing to the substantial improvement in 1973 net earnings.

In 1974, the Company experienced unprecedented worldwide demand for its metals, which it was able to meet with its broad line of products, from drawdown of inventories and expanded production facilities. Metals sales rose to $1,451 million, as prices continued to improve and deliveries of nickel, copper and rolling mill products reached an all-time high. During the year, the Company entered into contractual arrangements for the delivery of a substantial portion of its nickel output for 1975 through 1977 at prices in effect at the time of delivery. The higher 1974 consolidated net earnings were primarily attributable to the increased sales, which more than offset the adverse effects of higher unit costs and substantially higher income and mining taxes.

Inco also in 1974 inaugurated a program to reduce dependence on its traditional business by diversifying into other fields. The Company made a significant entry into the packaged power industry with the acquisition of ESB Incorporated, effective as of August 1, 1974, for $234 million. ESB had sales of $234 million during the five months ended December 31, 1974.

After experiencing higher unit costs in 1971, the Company began to benefit from its cost-control program, and the performance has been good when matched against inflation rates. Increases in total costs in 1972 and 1973 were mainly related to increased deliveries. In 1974, rapidly increasing supply, energy and labor costs more than offset continued improvements in operating efficiency. Additionally, ESB incurred costs of $186.7 million in 1974 since its acquisition, including $3.3 million for research and development and $3.3 million for taxes other than income and mining taxes.

For the five years ended December 31, 1974, 85 per cent of the Company's aggregate income and mining tax expense related to Canadian operations. From 1970 through 1973, except for a temporary 7 per cent reduction in portions of 1971 and 1972, the combined Canadian federal and provincial income and mining tax rate remained relatively stable. With the exception of annual variations in the tax benefits attributable to tax exempt income from new mines and a $6.7 million reduction in 1971 resulting from a non-recurring adjustment relating to prior years, income and mining tax expense was proportionate to the level of earnings during this period. However, in 1974, the introduction of higher rates for Ontario mining and Manitoba royalty taxes and the termination of tax exemption on income from new mines, as well as the higher level of earnings, substantially increased income and mining taxes.

# The International Nickel Company of Canada, Limited

## Directors

(Term Expires 1975)

Charles F. Baird
Senior Vice-President

David W. Barr
President, Moore Corporation Limited, Toronto (business forms)

Robert W. Bonner, Q.C.
Barrister – Partner in the firm of Bonner & Fouks, Vancouver

John J. Deutsch, C.C.
Professor of Economics, Queen's University, Kingston, Ontario

Wm. Ward Foshay
Lawyer – Partner in the firm of Sullivan & Cromwell, New York

L. Edward Grubb
Chairman of the Board and Chief Officer

G. Arnold Hart, M.B.E.
Chairman of the Board, Bank of Montreal, Montreal

J. Kenneth Jamieson
Chairman, Exxon Corporation, New York (petroleum products)

Robert C. Scrivener
Chairman and Chief Executive Officer, Bell Canada, Montreal (telephone utility)

The Rt. Hon. Viscount Weir, C.B.E.
Director, The Weir Group Limited, Glasgow, Scotland (engineers)

Donald G. Willmot
Chairman of the Board, The Molson Companies Limited, Toronto (brewing, retailing and diversified manufacturing)

Samuel H. Woolley
Former Chairman, The Bank of New York, New York

(Term Expires 1976)

J. Edwin Carter
President

Peter D. Curry
President and Chief Operating Officer, Power Corporation of Canada, Limited, Montreal (investment and management)

Kenneth A. DeLonge
Senior Vice-President

Albert P. Gagnebin
Former Chairman of the Board

J. Peter Gordon
President and Chief Executive Officer, The Steel Company of Canada, Limited, Toronto

James H. Goss
Chairman of the Board, The Pantasote Company, Greenwich, Connecticut (plastic and rubber products)

Allen T. Lambert
Chairman of the Board and Chief Executive Officer, The Toronto-Dominion Bank, Toronto

John McCreedy
Senior Vice-President

James C. Parlee
Vice-Chairman of the Board

George T. Richardson
President, James Richardson & Sons, Limited, Winnipeg (grain merchants)

Lucien G. Rolland
President, Rolland Paper Company, Limited, Montreal

William Steven
Senior Vice-President

Henry S. Wingate
Former Chairman of the Board

## Executive Committee

L. Edward Grubb, Chairman
David W. Barr
J. Edwin Carter
Wm. Ward Foshay
G. Arnold Hart, M.B.E.
J. Kenneth Jamieson
Allen T. Lambert

## Audit Committee

James H. Goss, Chairman
David W. Barr
Allen T. Lambert
Lucien G. Rolland
Samuel H. Woolley

## Advisory Committee

Henry S. Wingate, Chairman
William C. Bolenius
Norris R. Crump, C.C.
Albert P. Gagnebin
J. Roy Gordon
L. Edward Grubb
Donald H. McLaughlin
H.C.F. Mockridge, Q.C.
The Rt. Hon. Lord Nelson of Stafford
Ivor D. Sims
R. Ewart Stavert
The Rt. Hon. Viscount Weir, C.B.E.

## Officers

L. Edward Grubb
Chairman and Chief Officer

J. Edwin Carter
President

James C. Parlee
Vice-Chairman

Senior Vice-Presidents
Charles F. Baird
Kenneth A. DeLonge
John McCreedy
William Steven

Ashby McC. Sutherland
Assistant to the Chairman

Vice-Presidents
W. Roy Aitken
Frank C. Burnet
Walter Curlook
Paul H. Flynn
Shane MacKay
Charles E. O'Neill
Dean D. Ramstad
John H. Reevy
Louis S. Renzoni

Donald E. Munn
Regional Vice-President

Harold R. Hiser, Jr.
Treasurer

Ian McDougall
Comptroller

Donald C. McGavin, Q.C.
Secretary

George L. Sutton
Chief Legal Officer

## Officers of Principal Subsidiaries and Divisions

John H. Page
President and Chief Officer
The International Nickel Company, Inc., New York

Ronald R. Taylor
President
Ontario Division, Sudbury

Anthony T. Shadforth
Chairman and Chief Officer
Henry Wiggin & Company Limited, Hereford, England

Kenneth H. J. Clarke
President
Canadian Marketing Division, Toronto

Note:
For officers and plants of ESB Incorporated see Page 21.

Donald J. Phillips
Chairman and Managing Director
International Nickel Limited, London

Winton K. Newman
President
Manitoba Division, Thompson

Robert W. Simmons
President
Huntington Alloy Products Division, Huntington, W.Va.

Philip C. Jessup, Jr.
Managing Director
P.T. International Nickel Indonesia, Jakarta

Joseph J. Borgatti
President
Exmibal, Guatemala City

## Parent and principal subsidiary companies

**The International Nickel Company of Canada, Limited**
General Offices:
Sudbury, Ontario P0M 1N0

Executive Offices:
Toronto-Dominion Centre, Toronto, Ontario M5K 1E3 (416) 362-6311
One New York Plaza, New York, N.Y. 10004, U.S.A. (212) 742-4000

**The International Nickel Company, Inc.**
General Offices: One New York Plaza, New York, N.Y. 10004, U.S.A.

**International Nickel Limited**
General Offices: Thames House, Millbank, London, SW1P 4QF, England

**Huntington Alloy Products Division**
The International Nickel Company, Inc.,
General Offices: Huntington, West Virginia 25720, U.S.A.

**Henry Wiggin & Company Limited**
General Offices: Holmer Road, Hereford, HR4 9SL, England

**P.T. International Nickel Indonesia**
General Offices: Jalan Melawai VI/8, Kebayoran Baru, Jakarta, Indonesia

**Exploraciones y Explotaciones Mineras Izabal, S.A.**
General Offices: Edificio Valenzuela, 14 Calle 6-12, Zona 1, Guatemala City, Guatemala

## Other subsidiaries include

**Canada**
Canadian Nickel Company Limited, Toronto
International Sales Limited, Toronto

**South America**
International Nickel do Brasil Comercial Ltda., Sao Paulo
Mineração Serras do Sul Ltda., Rio de Janeiro

**Europe**
International Nickel B.V., The Hague
International Nickel Benelux S.A., Brussels
International Nickel Deutschland G.m.b.H., Düsseldorf
International Nickel France S.A., Paris
International Nickel Gesellschaft m.b.H., Vienna
International Nickel Iberica Limited, Madrid
International Nickel Italia S.p.A., Milan
International Nickel Océanie S.A., Paris
International Nickel Svenska AB, Stockholm
Henry Wiggin & Company Gesellschaft m.b.H., Vienna
Nickel Alloys International S.A., Brussels

**Asia**
International Nickel (India) Private Limited, Bombay
International Nickel Japan Ltd., Tokyo

**Australia**
International Nickel Australia Limited, Melbourne

**Africa**
International Nickel S.A. (Proprietary) Limited, Johannesburg

## Principal properties, plants, laboratories and products

**Mines**
Shebandowan, Ontario – Shebandowan
Sudbury, Ontario – Coleman, Copper Cliff North, Copper Cliff South, Crean Hill, Creighton, Frood-Stobie, Garson, Kirkwood, Levack, Levack West, Little Stobie and Victoria
Thompson, Manitoba – Birchtree, Pipe and Thompson

**Concentrators**
Shebandowan, Ontario
Sudbury, Ontario – Clarabelle, Copper Cliff, Frood-Stobie and Levack
Thompson, Manitoba

**Smelters**
Sudbury, Ontario
Thompson, Manitoba

**Iron Ore Recovery Plant**
Sudbury, Ontario – Iron ore and nickel oxide

**Matte Refining**
Sudbury, Ontario – Nickel oxide sinter, Incomet nickel and refined nickel sulphide

**Refineries**
Port Colborne, Ontario – Nickel metal, foundry additives, semi-refined platinum-group metals and osmium
Thompson, Manitoba – Nickel metal and elemental sulphur
Sudbury, Ontario – Nickel pellets and powders, copper, gold, silver, selenium, tellurium, semi-refined platinum-group metals and nickel sulphate
Clydach, Wales – Nickel pellets and powders, and nickel and cobalt salts and oxides
Acton (London), England – Platinum, palladium, rhodium, ruthenium and iridium

**Research Laboratories and Pilot Plants**
Sheridan Park and Port Colborne, Ontario
Sterling Forest, New York, and Harbor Island, North Carolina, U.S.A.
Birmingham, England, and Clydach, Wales

**Rolling Mills**
Plants – Huntington, West Virginia, and Burnaugh, Kentucky, U.S.A.; Hereford, England – Wrought nickel and high-nickel alloys
Research Laboratories – Huntington, West Virginia, U.S.A.; Hereford, England

**Counsel**
Sullivan & Cromwell
Osler, Hoskin & Harcourt

**Auditors**
Price Waterhouse & Co.

**Transfer Agents**
Canada Permanent Trust Company, Toronto, Ontario
The Royal Trust Company, Montreal, P.Q.
Canada Permanent Trust Company, Calgary, Alberta
Bankers Trust Company, New York, N.Y.
Morgan Grenfell & Co. Limited, London, England

**Registrars**
Montreal Trust Company, Toronto, Ontario
Montreal Trust Company, Montreal, P.Q.
Montreal Trust Company, Calgary, Alberta
Morgan Guaranty Trust Company of New York, New York, N.Y.
Lloyds Bank Limited, London, England

Printed in Canada

37

AR37

L. EDWARD GRUBB
CHAIRMAN AND CHIEF OFFICER
THE INTERNATIONAL NICKEL COMPANY OF CANADA, LIMITED

TORONTO SOCIETY OF FINANCIAL ANALYSTS

ROYAL YORK HOTEL

NOVEMBER 22, 1974

My colleagues and I are happy to be here today, and we thank you for your hospitality.

It has been just a little over two years since we met with many of you in Sudbury. And your membership was well represented at our Annual Meeting in April and at our special shareholders' meeting in August. This afternoon, I would like to bring you up to date on some recent developments and report on our current situation and what we see for the future.

First, permit me to review briefly Inco's financial results for the first nine months of this year. I'm sure you are all familiar with them. In any event, they are shown in the Third Quarter Report to shareholders, copies of which are at your place.

Put very succinctly, Inco enjoyed an excellent third quarter and first nine months. Despite higher unit costs and expenses and substantially higher effective income tax rates, earnings set a record for the nine-month period. As noted in the Report, the major factors contributing to our higher earnings were increased deliveries of primary nickel, copper and rolling mill products, and improved prices for these products.

I WOULD LIKE TO CLEAR UP A QUESTION WE HAVE RECEIVED FROM MANY OF YOU ABOUT A SEEMING ANOMALY IN THE TREND OF OUR COSTS AND EXPENSES FROM THE SECOND TO THE THIRD QUARTER. IN ADDITION TO BEING AFFECTED BY THE INCLUSION OF TWO MONTHS OF ESB'S ACTIVITIES, THE CHANGE IN THE RATIO OF COSTS TO SALES IS DUE TO TWO PRINCIPAL FACTORS. FIRST THE NICKEL PRICE INCREASE ON JUNE 28 INCREASED THE TOTAL DOLLAR VALUE OF SALES IN THE THIRD QUARTER THUS DECREASING THE RATIO. SECOND, THE RATIO WAS AFFECTED BY THE RESULTS OF COPPER HEDGING ACTIVITIES. WE BEGAN THIS PROGRAM IN LATE 1973 IN ORDER TO STABILIZE PRICE REALIZATIONS ON THAT PORTION OF OUR COPPER SOLD IN EUROPE AT PRICES BASED ON LONDON METAL EXCHANGE PRICES. THE UNFAVORABLE RESULTS OF THIS PROGRAM IN THE FIRST HALF OF THE YEAR PENALIZED OUR COSTS WHILE THIRD AND FOURTH QUARTER COSTS HAVE BENEFITED TO A MORE THAN OFFSETTING EXTENT. FOR THE YEAR AS A WHOLE, THE RESULT WILL BE MODESTLY FAVORABLE AND WILL BE REFLECTED AS A DECREASE IN COSTS, BUT THE QUARTER TO QUARTER COMPARISONS SHOW GREATER SWINGS.

FOR THE REMAINDER OF THE YEAR WE EXPECT OUR NICKEL SALES TO REMAIN STRONG. I SHOULD POINT OUT THAT WHILE THE PRESENT WORLD SITUATION HAS NOT YET REDUCED NICKEL DEMAND, THERE IS SOME REDUCTION IN DEMAND FOR NICKEL IN THE AUTOMOTIVE AND CONSUMER PRODUCTS FIELDS. THIS IS STILL BEING OFFSET BY CONTINUING STRENGTH IN THE CAPITAL GOODS AREA. LOOKING AHEAD TO 1975, WE EXPECT SUPPLY AND DEMAND TO BE IN BALANCE. FOR THE ENTIRE YEAR,

CONSUMPTION IS EXPECTED TO BE MARGINALLY LESS THAN THE RECORD 1974 LEVEL OF APPROXIMATELY 1-1/4 BILLION POUNDS. PRODUCTION MAY INCREASE BY OVER 100 MILLION POUNDS PRINCIPALLY FROM NEW PRODUCERS. ALTHOUGH YOU ARE WELL FAMILIAR WITH THE TENDENCY OF PRODUCTION FROM NEW SOURCES TO BE DELAYED WE NEVERTHELESS EXPECT THAT SUPPLIES OF NICKEL WILL BE EASIER AFTER THE FIRST HALF OF THE YEAR AND THAT PRODUCERS WILL HAVE AN OPPORTUNITY TO RE-ESTABLISH INVENTORIES AT MORE NORMAL LEVELS THAN THOSE WHICH HAVE PREVAILED FOR MOST OF THIS YEAR.

MANY OF YOU HAVE COMMENTED ON A VARIETY OF STEPS WE HAVE TAKEN TO IMPROVE OUR MARKETING POSITION INCLUDING ENTERING INTO SALES CONTRACTS WITH MANY OF OUR CUSTOMERS. THESE CONTRACTS GENERALLY RUN THROUGH 1977 AND COVER BOTH CLASS I AND 2 FORMS OF NICKEL. THEY ARE FOR FIXED QUANTITIES AT A PRICE IN EFFECT FOR INCO NICKEL AT THE TIME OF DELIVERY. A SUBSTANTIAL PORTION OF OUR OUTPUT WILL BE SOLD UNDER THESE FORWARD CONTRACTUAL ARRANGEMENTS. AS A RESULT, WE SHOULD NOT BE AFFECTED DISPROPORTIONATELY AS IN THE PAST BY ANY REDUCTION IN DEMAND NEXT YEAR.

THIS NEW DEVELOPMENT IN OUR APPROACH TO MARKETING REFLECTS A BASIC CHANGE THAT HAS TAKEN PLACE IN THE NICKEL INDUSTRY, NAMELY THAT COMPETITION HAS INCREASED SHARPLY IN RECENT YEARS. ALTHOUGH INCO CONTINUES TO BE BY FAR THE MOST IMPORTANT PRODUCER, THERE ARE TODAY OVER A DOZEN FULLY INTEGRATED NICKEL PRODUCERS.

THIS FACT HAS LED US TO RESTRUCTURE OUR PRODUCT RESEARCH AND MARKET DEVELOPMENT ACTIVITIES. IN THE EARLY 1950'S, WHEN INCO ACCOUNTED FOR A MUCH LARGER PORTION OF TOTAL NICKEL SALES, WE RELIED ON DEVELOPING MARKETS FOR NICKEL PER SE IN THE BELIEF THAT INCO WOULD BE ABLE TO SUPPLY THE MAJOR SHARE OF THE INCREASED DEMAND. BUT TODAY WITH INCO SUPPLYING ABOUT 40 PER CENT OF THE NON-COMMUNIST WORLD MARKET, WE HAVE REDUCED OUR INDUSTRY-ORIENTED RESEARCH AND DEVELOPMENT EFFORTS AND RE-DIRECTED THEM IN ORDER TO PROMOTE SPECIFICALLY THE SALE OF INCO'S PROPRIETARY PRIMARY NICKEL PRODUCTS. I WOULD REMIND YOU, OF COURSE, THAT INCO'S PRODUCT LINE IS THE BROADEST IN THE INDUSTRY AND INCLUDES ELECTROLYTIC NICKEL, PELLETS, POWDERS AND S NICKEL FOR PLATING (ALL CLASS I PRODUCTS) AND NICKEL OXIDE SINTER 75 AND INCOMET IN THE CLASS II CATEGORY.

Going beyond 1975, our view of the long-term demand for nickel is unchanged. The historical demand trend line shows a 6 to 6.5 per cent nickel growth annually. If, as anticipated, this growth rate is maintained, non-Communist world consumption will be more than 1.6 billion pounds by 1980. If we allow for a 15 per cent cyclical fluctuation, required capacity to meet this demand should be about 1.9 billion pounds. At the end of next year, installed nickel production capacity is expected to be 1.6 billion pounds, leaving 300 million pounds of capacity that must be added by 1980.

And Inco means to help satisfy that need, principally from our Indonesian and Guatemalan projects, which should be on stream by the end of 1976 and which we hope to have producing at an annual rate of about 125 million pounds by the end of 1978.

Although our diversification program has been getting most of the publicity lately, I am sure you realize that we are determined to continue to be a leader in the production and marketing of nickel. That is why we are also increasing production in Canada with the goal of reaching what we regard as our optimum capacity from present facilities of 520 million to 540 million pounds. Our Canadian production is scheduled to be within that range next year. This year, our production

LEVEL WILL BE SOMEWHAT IN EXCESS OF 500 MILLION POUNDS OF NICKEL. BY COMPARISON, IN 1972, IT WAS 401 MILLION AND IN 1973 IT WAS 469 MILLION POUNDS.

LET ME POINT OUT, BY THE WAY, THAT OUR PRODUCTION RATE IS NOW AT THE HIGHEST LEVEL IN THE COMPANY'S HISTORY. THIS ACHIEVEMENT IS PRIMARILY THE RESULT OF OUR HEAVY INVESTMENT IN THE 1967-1972 PERIOD IN MODERNIZATION AND NEW PLANTS AND EQUIPMENT. AND I THINK IT IS NOTEWORTHY THAT PRODUCTIVITY HAS INCREASED ALONG WITH PRODUCTION. FOR THIS WE CAN CREDIT NOT ONLY OUR CAPITAL EXPENDITURES BUT ALSO THE EFFORTS OF EMPLOYEES AT ALL LEVELS OF THE ORGANIZATION.

IF WE ARE TO MAINTAIN THIS HIGH LEVEL OF PRODUCTION CAPACITY, AN INVESTMENT OF ABOUT $100 MILLION IN CANADA WOULD BE NECESSARY EACH YEAR. AND CERTAINLY WE <u>SHOULD</u> CONTINUALLY DEVELOP OUR EXISTING MINES AS SECTIONS BECOME MINED-OUT, AND WE <u>SHOULD</u> KEEP OUR PROCESSING FACILITIES AT THEIR PRESENT HIGH PEAK OF EFFICIENCY.

THIS BRINGS ME TO THE CRITICAL SUBJECT OF RESOURCE TAXATION AND SPECIFICALLY TO THE FEDERAL BUDGET WHICH WAS BROUGHT DOWN LAST MONDAY NIGHT. YOU WILL NOT BE SURPRISED IF I TELL YOU THAT THE BUDGET WAS PROFOUNDLY DISAPPOINTING TO US.

WE HAD HOPED THAT THE FEDERAL GOVERNMENT WOULD HAVE SEEN FIT TO RESTORE THE TRANSITIONAL ARRANGEMENTS ORIGINALLY PROVIDED FOR IN THE TAX REFORM MEASURES THREE YEARS AGO AND WHICH WERE WITHDRAWN LAST SPRING. WE HAD ALSO HOPED, QUITE FRANKLY, THAT THE FEDERAL-PROVINCIAL CONSULTATIVE PROCESS WOULD BY NOW HAVE PRODUCED SOME GIVE AND TAKE, SOME RECOGNITION OF THE ABSOLUTE NECESSITY OF ESTABLISHING A REASONABLE TAX REGIME FOR THE RESOURCE INDUSTRIES OF THIS COUNTRY. INSTEAD WE REMAIN THE HIGHEST TAXED INDUSTRY IN THE LAND, AND THE VICTIM IN A FEDERAL-PROVINCIAL POWER STRUGGLE.

I TAKE NO SIDES IN THAT STRUGGLE: IT IS SOMETHING WHICH SHOULD BE WORKED OUT BETWEEN OTTAWA AND THE PROVINCES. I DO SAY, HOWEVER, THAT IT MUST BE WORKED OUT IF CANADA IS TO MAINTAIN A STRONG RESOURCE BASE. THE CUMULATIVE IMPACT OF THE PRESENT SYSTEM IS TO TAX PARTS OF OUR INCOME AT MARGINAL RATES ON THE ORDER OF 70 PER CENT OR MORE. I LEAVE IT TO YOU TO DECIDE WHETHER SUCH RATES, BY ANY OBJECTIVE TEST, CAN POSSIBLY ENCOURAGE INVESTMENT IN EXPANSION OF PRODUCTION OR EFFICIENCY OF OPERATION.

I REFERRED EARLIER TO OUR INDONESIAN AND GUATEMALAN PROJECTS. UPON COMPLETION OF THEIR INITIAL STAGES, THEY WILL CONTRIBUTE AT THE RATE OF APPROXIMATELY 60 MILLION POUNDS ANNUALLY -- 35 MILLION FROM INDONESIA AND 25 MILLION FROM GUATEMALA.

Even as the construction of Stage I moves ahead in Indonesia, our subsidiary there, P.T. International Nickel Indonesia, is working on plans for Stage II. Such an expansion of our Indonesia project based upon a hydroelectric power source, will increase total investment in that project to approximately $600 million. The second stage would add 65 million pounds to the annual production rate, giving us the total of 125 million pounds from both Indonesia and Guatemala to which I previously referred.

While construction moves ahead on these projects, we continue to carry on an extensive exploration program for nickel and other resources in many parts of the world.

So, as you can see, and as I have stated on several occasions recently, Inco has no intention of slackening its efforts in natural resources and we fully intend to remain big in the nickel industry.

But at the same time, we are determined to broaden the base of our business, to accelerate the growth in profits and to minimize as far as possible fluctuations in earnings. These are the factors that were behind our decision to begin an orderly, long-range program of diversification.

Our first, and to date only acquisition under this program was ESB Incorporated. The long-term prospects of ESB, a world leader in packaged energy, are highly encouraging and we anticipate this subsidiary will make an increasing contribution to Inco's profits in the future.

You might be interested in learning the reasons why we acquired ESB. As I pointed out in a letter to shareholders in August regarding the ESB acquisition, we decided about two years ago to diversify in an orderly manner. Once that decision was taken, an internal task force was established to make recommendation on how we might accomplish that goal through commercialization of internal developments, broadening our base in natural resources and acquisition of other companies.

After studying a large number of industries, we decided that the battery business in general and ESB in particular should be given first priority because they ranked highest in the acquisition criteria which we apply to all industries and companies. These criteria are:

* An earnings growth potential significantly greater than our basic business.

* THE POTENTIAL TO REDUCE THE SEVERITY OF THE CYCLICAL SWINGS IN INCO'S EARNINGS, WHICH HAVE TENDED TO REFLECT FLUCTUATIONS IN DEMAND IN THE CAPITAL GOOD INDUSTRIES.

* A BROAD COMPATIBILITY WITH INCO'S FUNDAMENTAL SKILLS -- MINING, METALLURGY AND ELECTROCHEMISTRY, BROADLY BASED RESEARCH AND DEVELOPMENT, INTERNATIONAL MARKETING CAPABILITY AND A STRONG FINANCIAL POSITION.

* FEASIBILITY. THAT IS, THERE MUST BE A HIGH DEGREE OF PROBABILITY THAT WE WILL BE SUCCESSFUL IN OUR PROPOSED ACQUISITION. IN THE CASE OF ESB, WE WERE REASONABLY CONFIDENT OF SUCCESS BECAUSE ESB'S SIZE SEEMED MANAGEABLE, ITS STOCK APPEARED OBTAINABLE AT AN APPROPRIATE PRICE AND THE ACQUISITION DID NOT SEEM TO POSE SIGNIFICANT AND NOT READILY SOLUBLE PROBLEMS OF A BUSINESS, LEGAL OR SOCIO-ECONOMIC NATURE.

ESB WAS SELECTED IN PREFERENCE TO OTHER BATTERY COMPANIES BECAUSE IT WAS ONE OF THE FEW INDEPENDENT COMPANIES ENGAGED ALMOST ENTIRELY IN THE BATTERY BUSINESS; IT HAD A LEADING POSITION IN ONE OR MORE OF ITS MARKETS, AND IT RANKED HIGH IN OUR EVALUATION OF FUTURE PROFITABILITY FROM THE STANDPOINT OF EARNINGS GROWTH AND RETURN ON INVESTMENT.

OUR CONCLUSIONS REGARDING ESB LED TO THE TENDER OFFER THAT RESULTED IN OUR ACQUIRING SUBSTANTIALLY ALL OF ITS STOCK.

AS FOR THE FUTURE, LET ME EMPHASIZE AGAIN THAT WE PLAN TO CONTINUE TO DIVERSIFY, BUT WE HAVE NO INTENTION OF BECOMING A COMGLOMERATE.

AND NOW, LADIES AND GENTLEMEN, MY COLLEAGUES AND I WELCOME YOUR QUESTIONS, EXCEPT THE INEVITABLE ONE, "WHEN ARE YOU GOING TO INCREASE THE PRICE OF NICKEL, AND BY HOW MUCH?"